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EFFECT OF THE DROUGHT ON FOOD PRICES

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE COMMITTEE'S EFFORTS ON THIS YEAR'S DISASTROUS DROUGHT AND ITS IMPACT ON VARIOUS SEGMENTS OF OUR ECONOMY—THIS ONE THE CONSUMING PUBLIC

OCTOBER 5, 1988

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EFFECT OF THE DROUGHT ON FOOD PRICES

WEDNESDAY, OCTOBER 5, 1988

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:02 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Harkin, Conrad, and Bond.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good morning.

I apologize for the delay in starting. We are now down to the last 5 weeks of the session, and everybody is holding hearings or meetings. The Appropriations Committee was also meeting this morning, on which I serve. We do have a Judiciary Committee bill on the floor that I have to manage, so we will have different Senators chairing this hearing.

The hearing today represents another phase of the committee's efforts in this year's disastrous drought and its impact on various segments of our economy—this one the consuming public.

The consumers of this country have paid once on the drought. As taxpayers they have financed the drought relief bill which will run into several billions of dollars. I want to make sure, though, that they do not pay unnecessarily as consumers of products that are grown or raised in the drought-stricken areas. Certain prices will naturally go up because of shortages. I want to make sure that they do not go up unnaturally, and that's really the purpose of this hearing.

We will hear today from a broad range of the food chain. From those who maintain a perspective from the farm level, to those who sell the food, to those who consume it.

At the beginning of the committee's consideration of issues relating to the drought several months ago, I asked the General Accounting Office to monitor food prices for us. I wanted to be sure that we did not have segments of the food and agricultural industry taking advantage of the drought to gouge the consumer. After all, again, these are the same consumers who are also paying for the drought legislation.

John Harman and Mary Kenney, of the General Accounting Office, are here to provide us with the first of their monthly reports. In the future, the GAO will continue their efforts at monitor-

ing food prices. Their reports will be made available to the committee as they become available, and we will make sure that they are made public.

We will also hear from Steven D. Maurer, the Director of the Ohio Department of Agriculture, who has been involved in monitoring prices in conjunction with several other State departments of agriculture. Ellen Haas, the executive director of Public Voice, will relate the efforts of Public Voice and the Consumer Federation of America to us and Richard F. Bondareff, the president of Bonfeld, Inc., who is representing his companies and the Food Marketing Institute, will give us his views from the retailers perspective.

This will be a fair hearing. We want to look carefully at the data presented to us by GAO and to listen to our other witnesses. I don't want us to begin this process by condemning before looking at the data. But I also want to be sure we've exposed problems where they exist.

You know, when the drought commenced at the beginning of the summer, the committee turned its attention to assuring that America's farmers and ranchers were not overwhelmed. I said that I wanted to make sure that those who were in business this year could be in business next year, notwithstanding the drought. In record time, with broad bipartisan support, we passed a drought relief package which already—in just 3 months—is beginning to provide help to those most adversely affected.

But our efforts cannot stop at the farm gate, nor should they. It concerned me from the outset that we leave no room for the unscrupulous to take advantage of the drought for their own ends. Investors, who put their trust as well as their money in our commodities markets, needed to be protected from scams and boilerroom operations. Through a series of letters, we energized our regulatory agencies, such as the Commodity Futures Trading Commission and the Federal Trade Commission, to increase their scrutiny of issues related to the drought. They have done this, and so far, at least, there do not appear to have been excesses. But, these agencies will continue to watch for trouble spots.

Consumers, too, needed protection, and as a start, on June 27, I wrote to ask the General Accounting Office to join the committee in monitoring food prices.

But the methods and remedies for consumer protection are a bit different. The most draconian, price controls, are not currently in use, nor do I believe that they are needed. But there are ways to protect consumers short of imposing controls—by vigilance. Consumers can and are watching out for ripoffs. Smart shoppers have been comparing prices among brands and between markets. In fact, their vigilance, as much as anything, probably accounts for the fact that there have not been more dramatic food prices than the ones we have seen.

I know it first came to my attention when almost at the beginning of the drought I was in a store and there was a sign up saying that prices were rising, they hoped that the customers would understand, because of the drought. I had a neighbor come up to me and say, "How can this be? The drought has just begun. How come the prices are going up already?" I said, "Well, there's no justifica-

tion for it." And that really prompted my requests to monitor food prices.

As Louis Brandeis wrote more than 70 years ago, "Sunlight is the best disinfectant, electric light the most effective policeman."

I think that consumer watchfulness, as well as the activities of the General Accounting Office, public officials at all levels of government and public interest organizations, such as the Consumer Federation of America and Public Voice, have all contributed to the relative stability of food prices during the summer, and I am glad to see that.

Some price increases do appear higher than warranted by the drought alone, most notably in wheat-based food products such as pasta and bread, and in some meats. But in general, there do not seem to have been excessive price increases across a broad range of products that use the drought as an excuse. I think one of the reasons for that is people have watched very carefully.

The effects of the drought have not ended with the meager harvest in the affected areas of our country. There may yet be some problems arising, and some may be excessive of any legitimate claimed relationship to the drought. This committee will continue its review of commodity markets and consumer prices, and GAO will continue to help in that effort.

But, others must join in this vigilance, too. Sunlight and electric light will be enlisted to disinfect and to police.

So the bottom line is this: I think that there has been restraint, and I'm delighted to see that. I think the restraints in some instances have been because there has been careful vigilance. We know there will be some price increases but they ought to reflect the actual costs that have gone up as a result of the drought and not just because somebody sees a marketing tool.

I would remind all Americans that you should not have to pay three times for the drought. You're paying once for it in the drought relief package that the taxpayers have funded. You are going to pay a second time in just the natural increases that will become because of shortages. You should not have to pay a third time because excess profits are tacked on.

I yield to Senator Harkin for any opening statement.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. Thank you, Mr. Chairman.

I want to thank you for having this hearing. I think it's timely that we do have this hearing. As you have pointed out, Mr. Chairman, we haven't seen really huge price increases but there are some indications around the country that leads one to think there's a potential for some price gouging of the consumer in food products this fall and winter.

As the extent of the drought becomes better known, after the harvest is in and we see some stories coming out, perhaps late November, December, about the extent of the crop damage, there certainly could be some price gouging after that.

The reports that we have from GAO and from the Congressional Research Service indicate that—and I would just quote from the CRS report—"USDA economists have predicted that food prices

overall would rise in 1988 by about 2 to 4 percent, roughly the annual rate of increase since 1982." So there really should be no huge increases in prices because of the drought.

I'm concerned that if there are unjustified price increases, that consumers would blame these increases on farmers even though, as we know, only a very small share of the consumer's food dollar goes back to the farmer's pockets.

The prepared material submitted for this hearing, as I said, generally states that conclusive evidence of price gouging has not been found. But there are some indications of the potential for it out there, and we will hear from some of the witnesses as to some of these indications. But I believe we are wise to monitor the situation, and that's why I really appreciate you having this hearing, Mr. Chairman.

I would just add, the GAO report stated that white bread and pasta products increased by 3.5 to 5.9 percent between June and August; and, as the GAO report notes, the rise in pasta products of 5.9 percent is not fully attributable to increased prices to farmers. So, again, I think we have to be very wary of this.

I would close by saying that my word of advice to consumers is to be competitive shoppers. If you have been going to one store regularly and you see some big price increases, try another store, and just be a really competitive shopper for the next 4, 5 or 6 months. That will do a lot to keep any potential price gouging down also.

Thank you, Mr. Chairman.

[The prepared statement of Senator Harkin follows:]

Statment of Senator Harkin
Hearing on the Effect of the Drought on Food Prices
October 5, 1988

Thank you Mr. Chairman. As this year's drought developed, many consumers began to wonder what effect this disaster would have on consumer prices for food. Some voiced specific concerns that the drought could lead to unwarranted price increases. Because of these public expectations, they argued, food processors and marketers could and would unjustifiably raise food prices to consumers.

Unwarranted food price increases imposed under cover of the emergency situation brought on by the drought would plainly amount to unfair practices against consumers. Moreover, as is pointed out in material submitted for this hearing, the burden of food price increases falls most heavily on those who can least afford to bear it, such as those on low fixed incomes and food stamp recipients.

I am also concerned that consumers might blame any unjustified food price increases on farmers. Farmers would suffer most if the consumers and taxpayers of this country got the impression that farmers were not only benefiting from unfair food price increases, but were receiving Federal disaster payments to boot.

The testimony and materials submitted for this hearing generally state that widespread evidence of price gouging in the past several months has not been found. I think that the attention given to the potential for unfair price increases early in the drought probably played a role in holding food price increases down.

Some of the available information demonstates the wisdom of continued monitoring because of the potential for consumer food prices to soar during times of unusual circumstances such as the drought.

I notice from Mr. John W. Harman's prepared statement that the General Accounting Office found prices for cereals, white bread, and pasta products increased by 3.5 to 5.9 percent between June and August of 1988. But as the GAO report notes, the rise in pasta products of 5.9 percent is not fully attributable to increased prices to farmers, even though the Durum wheat price rose nearly 42 percent. Other figures in the GAO report indicate that price rises for bread and cereal products cannot be fully attributed to the farm sector. Yet the Consumer Price Index for August indicated a

one month rise in cereal and bakery products of 1.6 percent, the highest monthly rise since 1981.

The survey reported by Public Voice and the Consumer Federation of America indicates that beef prices included in their survey increased in more instances than they declined. There has been general agreement, however, that beef prices to consumers should have been falling during this period because more cattle were being marketed. And I am well aware that fed cattle prices have dropped sharply over the summer.

I believe these examples point out the need to continue to examine and monitor food prices. I also hope that today's testimony will shed some further light on these problems and serve as the basis for further inquiry.

The CHAIRMAN. Thank you very much.
Senator Conrad.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Mr. Chairman, I want to commend you for the leadership that you've shown on this issue. Frankly, I think it was your rather stern warning that has prevented a lot of what we might have otherwise seen, which would have been taking unfair advantage in the food industry of the drought situation.

From all reports, with some exceptions, we have not seen significant price increases or unreasonable price increases, although I must say in the cereal and bakery category, I have some concern about what we are seeing. And we have some specific products, as we discussed last evening, where we're seeing unreasonable, unwarranted price increases.

As Senator Harkin has indicated, the great irony would be if farmers were somehow blamed when they are the victims. The farmers have been helped by the drought package that was shepherded through Congress, with your leadership and the efforts of many. But that is not going to replace the income that has been lost as a result of this drought.

In my State, we have lost 60 to 70 percent of the crop. It is a disaster, and we have reduced the size of that disaster by the actions taken here.

Again, Mr. Chairman, I frankly believe that you should be given great credit for the warning that you issued about the seriousness that you would place on monitoring food prices. So I think we ought to commend you. I think your efforts have been successful.

The CHAIRMAN. Thank you. I appreciate that very much. I commend those who have been careful in trying to monitor this situation.

I get concerned when I have been in the States of both you gentlemen and hear people talking about the losses they have suffered, and they ask the question, "Are you watching, making sure that we're not getting blamed for price increases?" I think that is a valid question.

Let us ask Mr. Harman and Dr. Mary Kenney to come forward and join us up here.

I know that you have worked very, very hard in pulling this report together. We kind of dropped all this in your lap right at the beginning. But I wanted to have a nonpartisan group look at it, partly because, as I emphasized before and as Senator Harkin and Senator Conrad have emphasized, we put together a drought bill with a lot of help from a lot of people on both sides of the aisle here, and I wanted to make sure that all that work and all those commitments come through.

How do you want to present the testimony?

STATEMENT OF JOHN W. HARMAN, ASSOCIATE DIRECTOR, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DR. MARY KENNEY, AGRICULTURAL ECONOMIST

Mr. HARMAN. I'll go ahead and present the testimony, Mr. Chairman, and will try to cut, where I can, in the interest of time.

The CHAIRMAN. I apologize for the changes in time. I'm going to have to go in and out of the meeting myself because of the legislation on the floor. But as you can imagine, when you are down to the very end of the session, the schedule gets changed almost every half-hour to hour.

Mr. HARMAN. We've noticed that.

The CHAIRMAN. I'm sure.

Mr. HARMAN. We are pleased to be here this morning to discuss changes in food prices at the farm, processor, and retail levels.

Before I begin, I would like to introduce Dr. Kenney who is on my staff and who is an agricultural economist and has a major role to carry out this work that we will be discussing this morning and will be providing the committee these monthly reports for at least sometime in the future.

As you mentioned, at your request, Mr. Chairman, and at the request of Congressman Dorgan of the House, we have been monitoring the changes in food prices of eight food items.[1] These food items were selected because a high proportion of the U.S. households purchase them on a weekly basis.

In summary, we found that, between June 1 and August 31, 1988, food prices generally increased more at the farm, processor and retail level than they did during the same period in 1987. We also found that prices of many of the monitored food items had begun to increase prior to the drought—with the January to August 1988 increase being greater than the January to August 1987 increase. Generally, prices increased at all levels of the food marketing system during 1988. I would point out also that although agricultural commodity prices have increased this year, other costs generally have a greater influence on the final retail price, and that has been a historical fact for some period of time.

OVERVIEW OF PRICE CHANGES

Before I go forward with my prepared testimony, I would like to—we have a chart that's behind me—it's a little hard for me to see at this point, but it just shows what food prices, the Food Price Index, has done relative to the Consumer Price Index. As you see, for 6 of the 8 months of 1988, the Consumer Price Index for food has exceeded the Consumer Price Index for all items. That continues a trend that began in 1986.

Prior to that time, typically the CPI (all items) exceeded the Food Price Index. But for the 1980's, as a whole, the CPI (all items) has exceeded the CPI for food.

To provide the committee some perspective on these price changes that have occurred, I will discuss three grain based prod-

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[1] Pasta products (spaghetti and macaroni), cereal, white bread, ground beef, chuck roast, pork, fresh chicken, and milk.

ucts—pasta, cereal, and white bread—and illustrate monthly changes at various levels of the food marketing system. Since these foods are grain based, they are more likely than some other foods to be directly affected by the drought, at least in the short run.

PRICE CHANGES IN PASTA, CEREAL, AND WHITE BREAD

Retail prices of pasta, cereal, and white bread have risen steadily during 1988. Between January and August of this year, retail prices of pasta products rose over 10 percent, cereal over 7 percent, and white bread over 8 percent. However, about half of the price increases did occur before June.

The retail and processor prices of pasta, cereal, and white bread increased more between June and August 1988 than they did during that same time period of last year [1987]. Retail price increases during this period in 1988 ranged from a 3.5 percent rise for white bread to an almost 6 percent advance for pasta products. Cereal prices rose some 4 percent. In 1987, these retail prices rose minimally from a 0.4 percent to 1.7 percent during the June to August period.

The processor price increases for June through August 1988 were also larger than the prior year changes for the same months. Pasta price increases were almost 5 percent for 1988 and a little over 4 percent for 1987. Both cereal and white bread prices increased in 1988—5.8 percent for cereal and 3.7 percent for white bread. But, again, the prices increased minimally in 1987.

Farm level prices, as I'm sure you're very well aware, of the related agricultural commodities increased significantly this year, in contrast to their decline during the same period in 1987. In response to the drought, farm level prices for Durum wheat, which is the primary agricultural commodity in pasta products, rose 42 percent between June and August. Prices of Hard Red Spring wheat, which is the primary ingredient in white bread, rose a little over 26 percent and the composite price of all grains, which form the input to cereal, went up a little over 31 percent. In 1987, the farm level prices of all these commodities declined between May and August by as much as 21 percent for all grains.

AGRICULTURAL COMMODITY PRICE CHANGES HAVE A SMALL IMPACT ON RETAIL FOOD PRICES

As I mentioned earlier, and something that has to be considered is that the increases in agricultural commodity prices have had a limited impact on the yearly trend in increasing retail food prices. The reason for this is that commodity prices typically comprise a very small portion of retail food costs, averaging about 30 percent for food in 1987. Retail food prices reflect the cost of processing, packaging, transporting and selling foods in addition to the cost of the raw farm commodities. For pasta, cereal, and white bread, the agricultural value share of the retail price was 8 percent in 1987, somewhat significantly less than the average of 30 percent for all foods. For example, if you apply the increase in Durum wheat this year, the 42 percent increase, and try to move that back into what that should represent in the retail price increase, it moves into a range of 3.4 percent increase in the retail price of pasta products.

However, retail pasta prices rose 6 percent between June and August 1988, so there are some other factors at work here. Retail cereal and white bread prices experienced a similar phenomenon.

CHARTS

I would like to move now to show you some charts that may—there's a lot of numbers I have thrown around here, so it may illustrate a little better what has happened, particularly with pasta and cereal. I might mention, too, that these charts are included as an attachment to my testimony, as well as charts for all the eight items that we looked at.

Now looking at pasta, you see that there has been an increase—we have two charts here. One looks at the cumulative increase and the second chart we're showing for each one of these items will show the monthly changes.

The cumulative increase for pasta at the retail level has been about 10.4 percent over the period of time since January. There was a 4.4 percent increase up to May, so there's been an additional almost 6 percent, as I mentioned earlier, increase from May to—from June to August.

Also, you will notice there the point I made earlier about the commodity prices, which are represented by the heavy line, took a significant cumulative jump beginning in May, but the lines for the processor and retail levels stayed fairly level, although still increasing at a rate that is fairly high.

Also, if you will notice—and the point I would like to make again is that that increase, that tremendous increase in the commodity level does not justify, at least at this point, the increase—that alone does not justify the increase at the retail and processor level. So there are some other cost factors or other actions that are being taken that would account for that, and we're not sure what those are at this point.

Let's move to the monthly chart. This just shows the price increases at every month. In June there was a tremendous increase in Durum wheat prices, followed by a lesser increase in July.

The CHAIRMAN. That's the producer price index?

Mr. HARMAN. That's the producer price increase.

The CHAIRMAN. Which is the farm?

Mr. HARMAN. That's the farm index. And that's a fairly erratic line which, again, does not influence the processor and retail indexes nearly as much as would other costs which comprise 92 percent of the retail price.

Let's look at cereals now. Cereals are very much the same picture; there's not a whole lot of difference. You will see the lines looking pretty much the same with the producer price index, farm price index moving higher after May, which is what you would expect from the drought, and the other lines remaining fairly constant, although an increase particularly in the processor prices, beginning in May, moving up beyond the 3 percent level that they were at from January through May, jumping more than 5 percent from June through August. So there is an upward trend.

Now, cereals have been increasing for some period of time, and I think there was about a 6 percent increase all of last year. But you

can see what we're experiencing now is an increase that's at a higher level than what we experienced before.

When we look at the monthly chart, it looks again almost identical to the pasta chart, particularly in terms of the producer price. The other prices at the retail and processor levels started to move—particularly the producer price started to move up in May.

We expected (or at least had hoped) to see some relationship between prices at the processor level and prices at the retail level, but there's no apparent correlation there. And it just points out again that there's a number of management decisions and factors that go into determining the prices that the processor and the retailer set for their products. It's not always easy to find reasons for food price increases in order to determine whether there is, in fact, something going on that shouldn't be going on.

That does conclude my statement this morning, Mr. Chairman. I would be pleased to answer any questions that you or the members of the committee may have.

[The prepared statement and attachments of Mr. Harman follow:]

United States General Accounting Office

GAO Testimony

For Release
on Delivery
Expected at
9:30 a.m. EST
Wednesday
October 5, 1988

Price Changes in Selected Agricultural Commodities and Foods

Statement of
John W. Harman, Associate Director
Resources, Community, and Economic
Development Division

Before the
Committee on Agriculture, Nutrition,
and Forestry
United States Senate

GAO/T-RCED-89-1

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss changes in food prices at the farm, processor (manufacturer), and retail levels for selected food items. At your request, Mr. Chairman, and at the request of Congressman Byron L. Dorgan, we have been monitoring the changes in prices of 8 food items: pasta products (spaghetti and macaroni), cereal, white bread, ground beef, chuck roast, pork, fresh chicken, and milk.[1] These food items were selected because a high proportion of U.S. households purchase them on a weekly basis.

In summary, we found that, between June 1 and August 31, 1988, food prices generally increased more at the farm, processor, and retail level than they did during the same period in 1987. We also found that prices of many of the monitored food items had begun to increase prior to the drought--with the January to August 1988 increase being greater than the January to August 1987 increase. Generally, prices increased at all levels of the food marketing system during 1988. Although agricultural commodity prices have increased this year, other costs generally have a greater influence on the final retail price.

OVERVIEW OF PRICE CHANGES

While prices increased this summer, we found that retail prices of seven of the eight food items monitored also increased from January 1 to May 31 of 1988. In the first 5 months of 1987, retail prices of six of these items declined. (Attachment I, shows 1988 monthly retail prices and monthly percentage price changes for the 8 food items studied.)

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[1] To monitor the changes in prices and related indexes for these food items, we relied on the Bureau of Labor Statistics' monthly Average Consumer Prices, Consumer Price Indexes, and Producer Price Indexes.

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Retail prices of pasta products, cereal, and white bread increased at least three times more in the summer (June-August) 1988 than they had increased in the summer of 1987. Retail prices of pork increased this summer, but by a smaller percentage than last summer. Chuck roast prices declined this summer after increasing last year during the same period. However, chuck roast prices have often gone down during the Juñe-August period in recent years.

To provide the Committee some perspective on these price changes, I will discuss three grain based products--pasta, cereal, and white bread--and illustrate monthly changes at various levels of the food marketing system. Since these foods are grain based, they are more likely than some other foods to be directly affected by the drought in the short run.

PRICE CHANGES IN PASTA, CEREAL, AND WHITE BREAD

Retail prices of pasta, cereal, and white bread have risen steadily during 1988. Between January and August of this year, retail prices of pasta products rose 10.4 percent, cereal 7.1 percent, and white bread over 8.2 percent. However, 43 percent of the pasta and cereal price increases and 57 percent of the white bread increase occurred before June.

Retail and processor prices of pasta, cereal, and white bread increased more between June and August 1988 than they did during the same period in 1987. June through August Retail price increases this year ranged from a 3.5 percent rise for white bread to a 5.9 percent advance for pasta products. Cereal prices increased 4 percent. In 1987, these retail prices rose from .4 percent to 1.7 percent during the June-August period.

Processor price increases for June through August 1988 were also larger than the prior year changes for the same months. Pasta price increases were 4.9 percent for 1988 and 4.1 percent for 1987.

Both cereal and white bread prices increased in 1988 (5.8 percent and 3.7 percent respectively) but white bread increased by 1 percent and cereal did not change in 1987.

Farm level prices of related agricultural commodities increased significantly this year, in contrast to their decline during the same period in 1987. In response to the 1988 drought, farm level prices for durum wheat, the primary agricultural commodity in pasta products, rose 42 percent between June and August. Prices of hard red spring wheat (a primary ingredient in white bread) rose 26.4 percent and the composite price of all grains (the grain composite price represents the agricultural inputs for cereal) went up 31.1 percent. In 1987, farm level prices of all these commodities declined between JUNE and August by as much as 21 percent for all grains.

AGRICULTURAL COMMODITY PRICE CHANGES HAVE A SMALL IMPACT ON RETAIL FOOD PRICES

Increases in agricultural commodity prices have had a limited impact on the yearly trend in increasing retail food prices. The reason for this is that commodity prices typically comprise a small portion of retail food costs, averaging about 30 percent for all foods in 1987. Retail food prices reflect the cost of processing, packaging, transporting and selling foods in addition to the cost of raw farm commodities. For pasta, cereal, and white bread, the agricultural value share of the retail price was 8 percent in 1987, (the most recent source of information). For example, the nearly 42 percent rise this summer in the price of durum wheat would cause only a 3.4 percent increase in the retail price of pasta products. However, retail pasta prices rose 6 percent between June and August 1988. Retail cereal and white bread prices also rose more than would be expected from grain price increases alone.

Food industry input costs, profits, and productivity largely determine how much the price of food increases after it leaves the farm. For example, changes in labor costs, which constitute 34.5 percent of retail food prices, on average, play a major role in determining retail food prices. A 10 percent increase in the cost of labor can raise retail prices of pasta, cereal, and white bread by ~~2.7~~ 3.4 percent over a year.

As agreed with your office, we will continue to monitor these food items through the end of this year, and provide you with monthly updates.

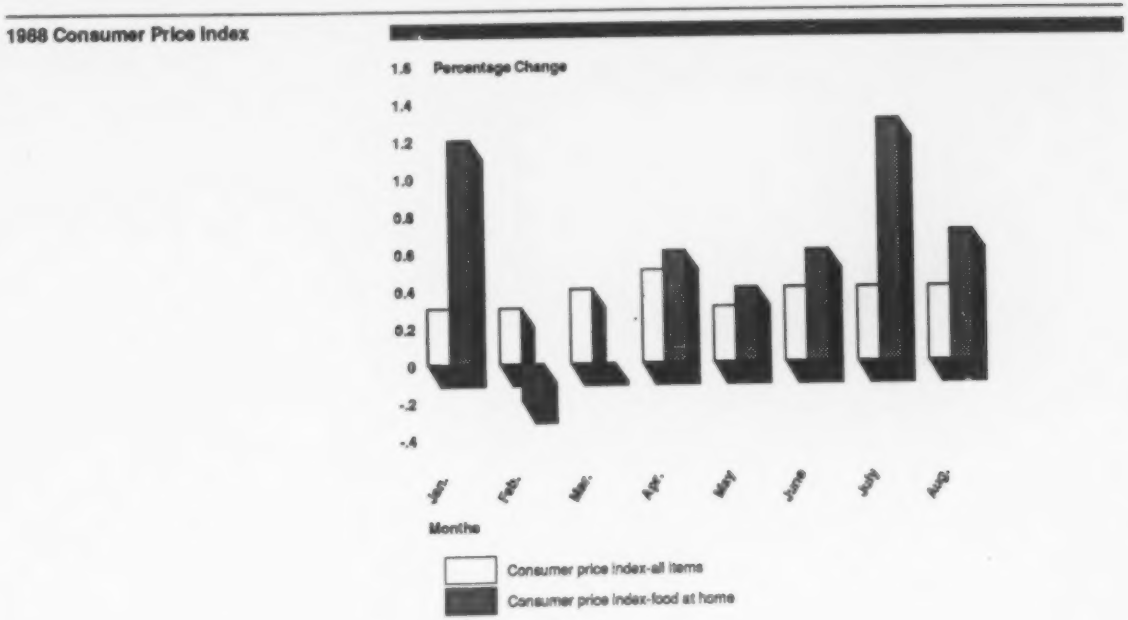
Mr. Chairman, this concludes my prepared statement.

(Attachments follow;)

(1982 to 1988 charts on bread prices, whole milk prices, fresh vegetables, utility beef prices, pork prices, poultry prices, fruit prices, cereal prices, choice beef prices are retained in the committee file.)

Attachment I

Figure I.1.--1988 Monthly Percentage Changes for the Consumer Price Index.



Source: Bureau of Labor Statistics

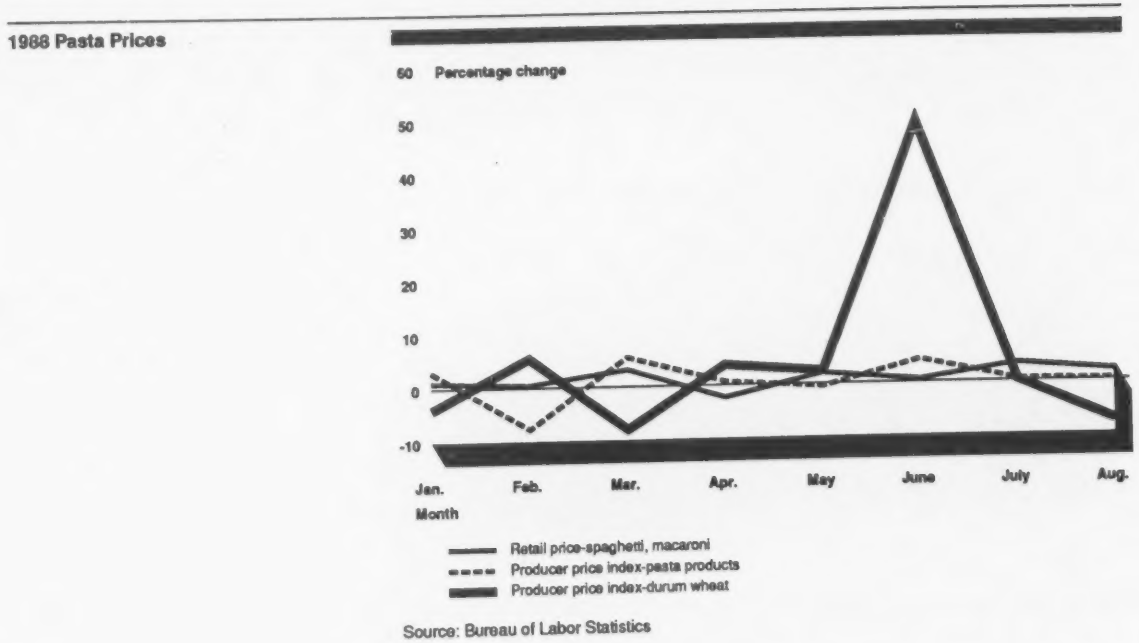
Attachment I

Table I.1: 1988 Monthly Retail Price and Monthly Percentage Change for Monitored Food Items

Food Group	1988 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Jan to Aug
Pasta									
Spaghetti, macaroni/lb.									
National average ($)	0.755	0.759	0.783	0.765	0.780	0.784	0.811	0.827	
Monthly change ($)	1.1	.5	3.2	-2.3	2.0	.5	3.4	2.0	10.4
Bakery									
White pan bread/lb.									
National average ($)	0.586	0.586	0.587	0.595	0.598	0.601	0.602	0.619	
Monthly change ($)	2.6	0.0	.2	1.4	.5	.5	.2	2.8	8.2
Beef									
Ground beef/lb.									
National average ($)	1.314	1.315	1.342	1.336	1.365	1.388	1.373	1.37	
Monthly change ($)	-.6	.1	2.1	-.5	2.2	1.7	-1.1	-.2	3.6
Chuck roast/lb.									
National average ($)	1.643	1.736	1.693	1.721	1.801	1.776	1.696	1.674	
Monthly change ($)	-1.1	5.7	-2.5	1.7	4.7	-1.4	-4.5	-1.3	1.2
Poultry									
Fresh chicken/lb.									
National average ($)	0.74	0.745	0.753	0.76	0.796	0.868	0.937	0.961	
Monthly change ($)	.5	.7	1.1	.9	4.7	9.1	8.0	3.0	27.5
Pork									
National average ($)	1.954	1.94	1.919	1.907	1.9	1.904	1.908	1.879	
Monthly change ($)	-3.3	-.7	-1.1	-.6	-.4	.2	.2	-1.5	-7.2
Milk									
Fresh whole milk/1/2 gal.									
National average ($)	1.157	1.166	1.157	1.159	1.152	1.147	1.147	1.142	
Monthly change ($)	.1	.8	-.8	.2	-.6	-.4	0.0	-.4	-1.2
Low fat milk/1/2 gal.									
National average ($)	1.099	1.103	1.099	1.099	1.1	1.099	1.088	1.112	
Monthly change ($)	.6	.4	-.4	0.0	.1	-.1	-1	2.2	1.9

Source: Bureau of Labor Statistics

Figure I.2.--1988 Pasta Price Monthly Percentage Change.



Attachment I

Figure I.3.--1988 Cereal Price Monthly Percentage Change.

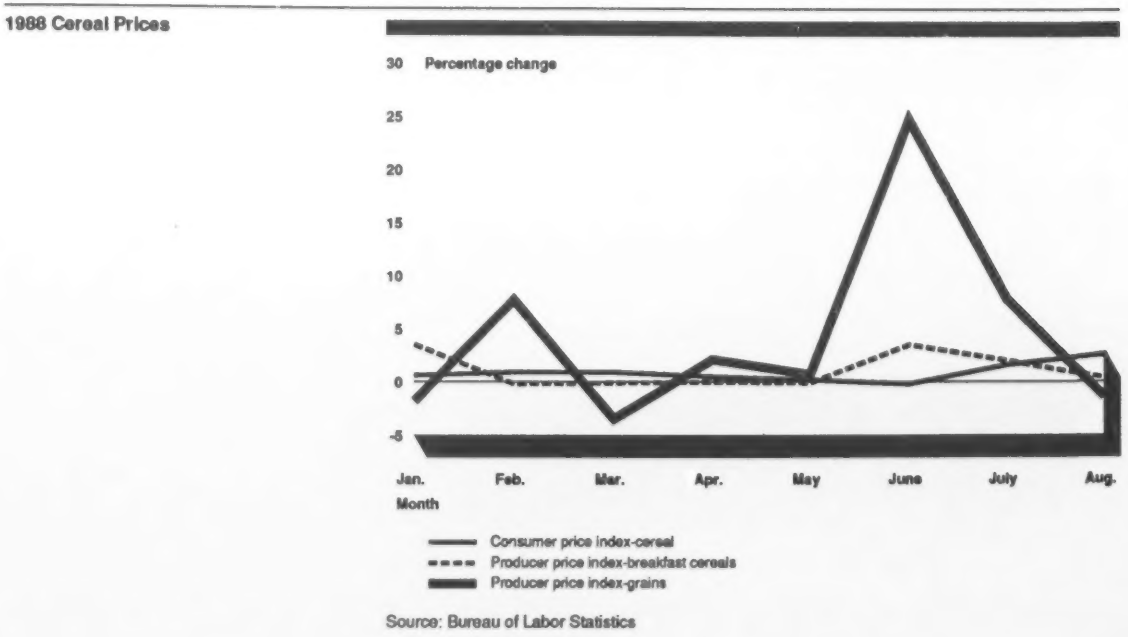
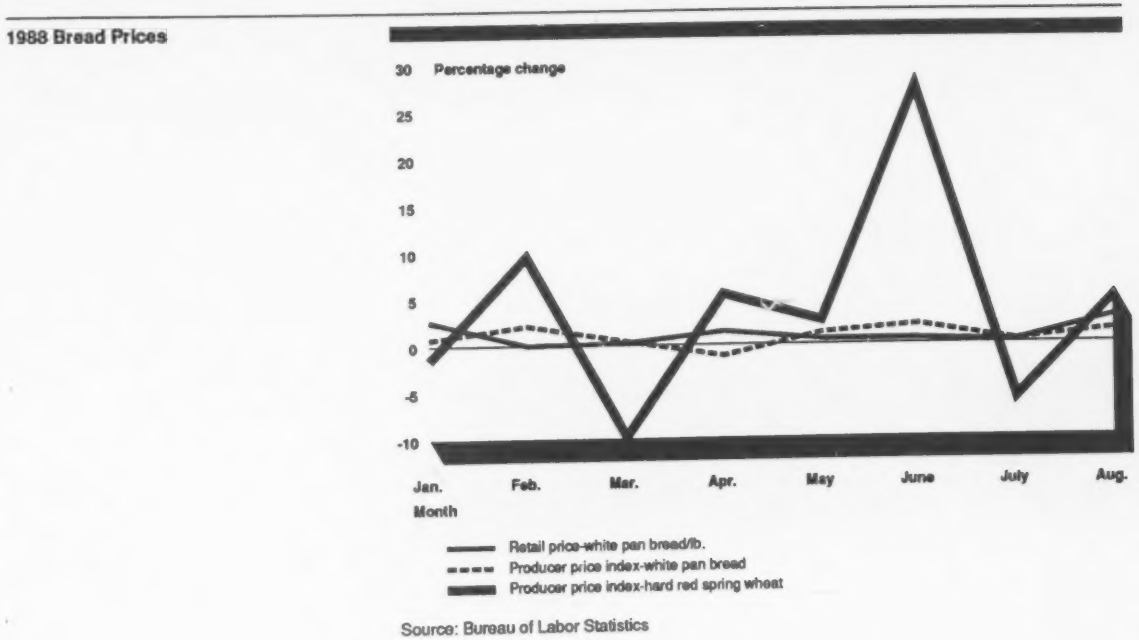


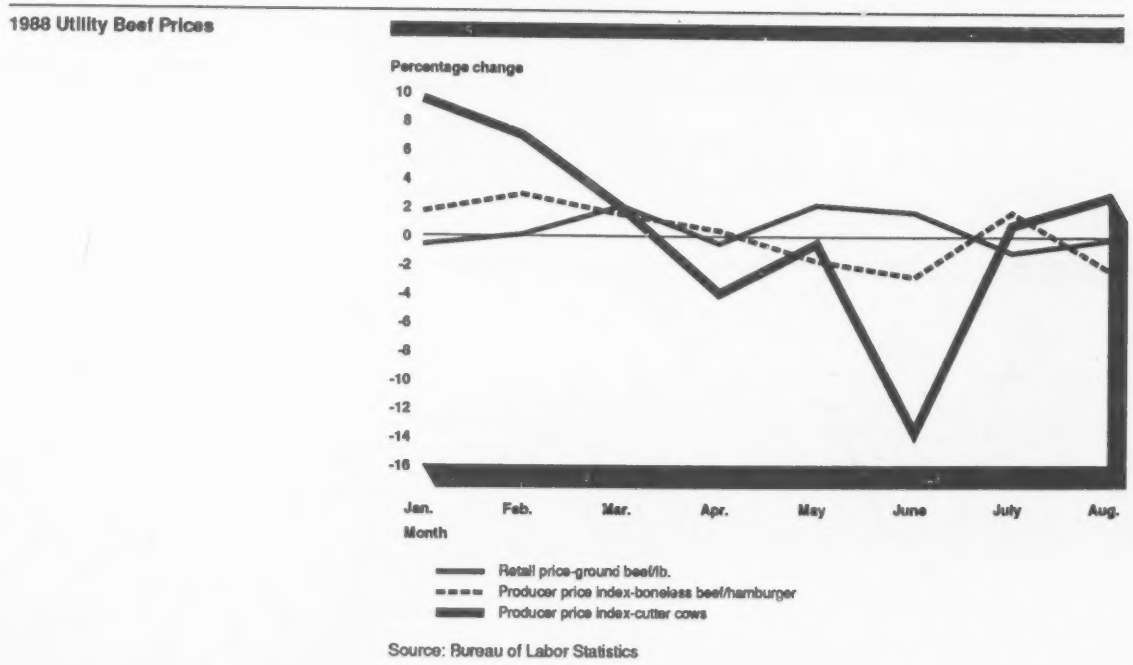
Figure I.4.--1988 White Bread Price Monthly Percentage Change.



Source: Bureau of Labor Statistics

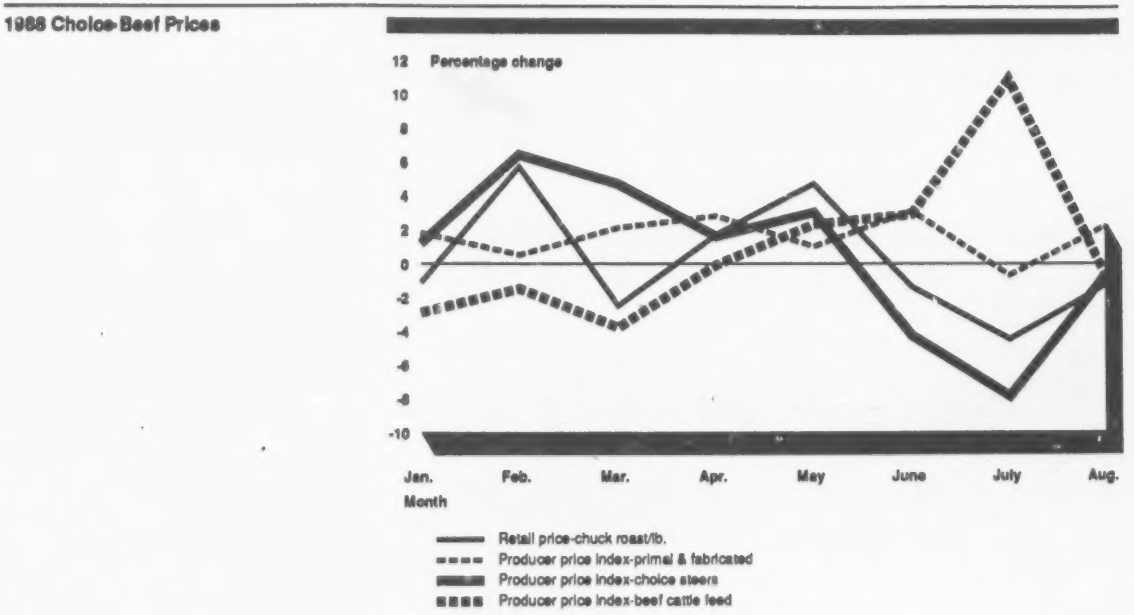
Attachment I

Figure I.5.--1988 Ground Beef Price Monthly Percentage Change.



Attachment I

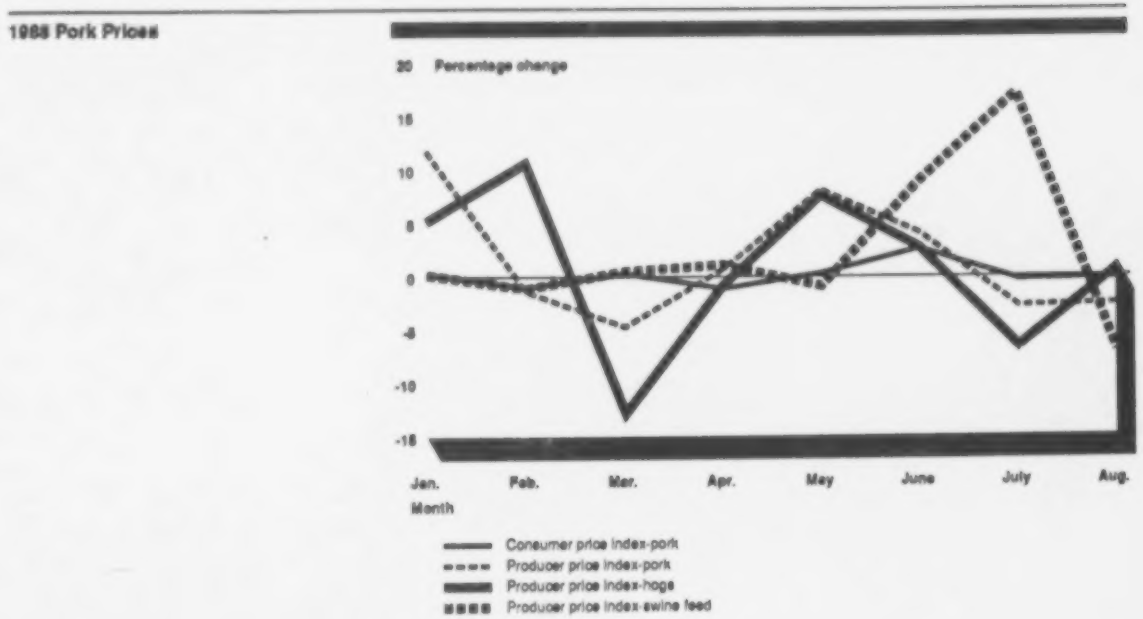
Figure I.6.--1988 Chuck Roast Price Monthly Percentage Change.



Source: Bureau of Labor Statistics

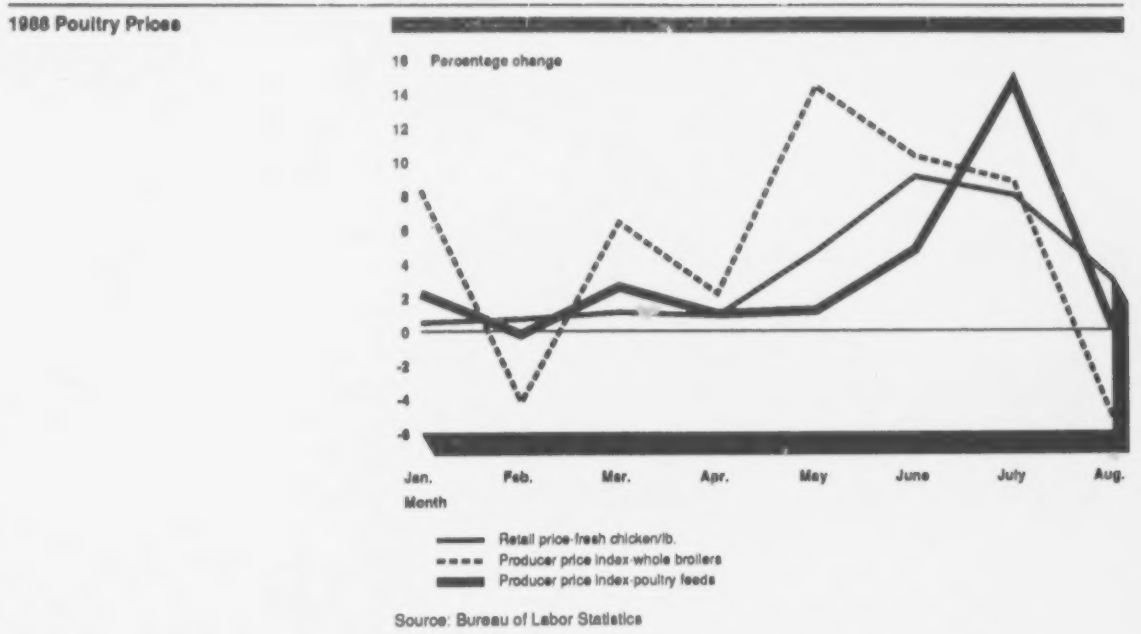
Attachment I

Figure I.7.--1988 Pork Price Monthly Percentage Change.



Source: Bureau of Labor Statistics

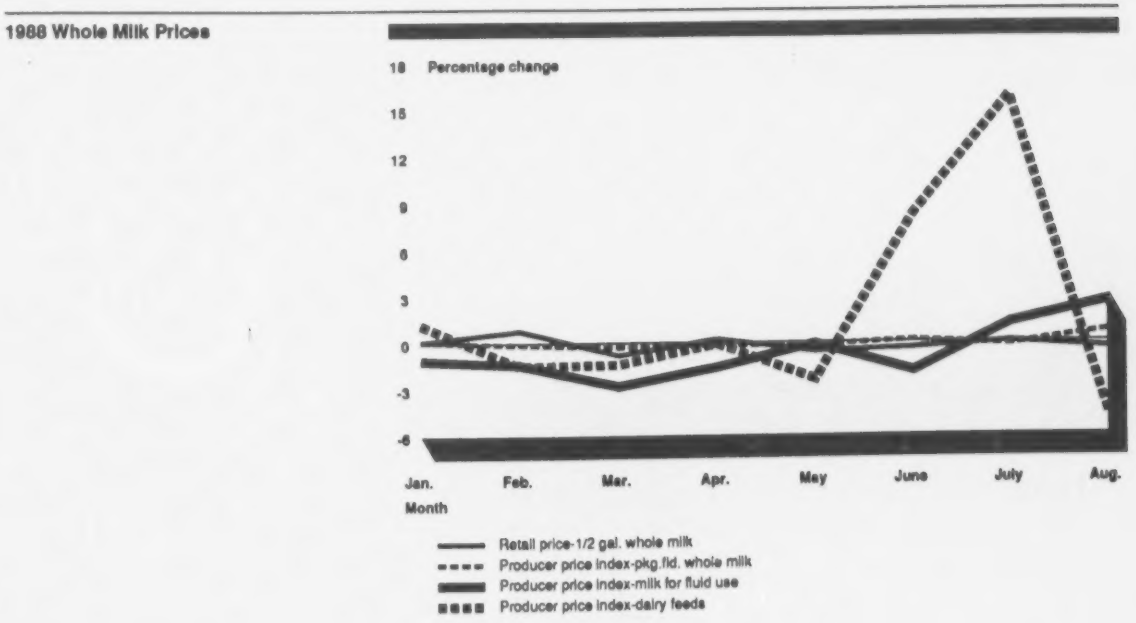
Figure I.8.--1988 Poultry Price Monthly Percentage Change.



Source: Bureau of Labor Statistics

Attachment I

Figure I.9.--1988 Milk Price Monthly Percentage Change.



Source: Bureau of Labor Statistics

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

R8-0294C

November 22, 1988

The Honorable Kent Conrad
United States Senate

Dear Senator Conrad:

On October 5, 1988, we testified on our review of food price monitoring, before the Senate Committee on Agriculture, Nutrition and Forestry. At those hearings you requested that we provide additional information on price data for pasta products.

In our testimony, we analyzed retail price changes that may have occurred because of the drought by looking at June through August 1988 data. Specifically, you requested that we provide information for the period May through August. Between January and August of this year these prices rose 10.4 percent. While over half (5.9-percent) of this increase occurred between June and August, about three-quarters (7.9-percent) of the increase occurred during the period May through August. Page 12 of our enclosed report, Food Prices: Changes Occurring in the Prices of Selected Food Products (GAO/RCED-89-46FS), provides the 1988 monthly percentage price increases for pasta products at the processor and retail level, and for durum wheat, the primary agricultural product in pasta.

You also requested information on the portion of pasta retail price that is comprised of packaging costs and how that cost compared to the cost of the durum wheat input. Because this information has not been compiled, we asked the National Pasta Association to gather this data for us. However, we have been notified by their counsel that since 1961 the Federal Trade Commission has put the association under a consent decree, which prohibits members from exchanging raw material prices or any information that affects pricing. The counsel advised the association not to gather the type of information we requested because he believes that packaging cost data could be in violation of the consent decree.

R8-0294C

Although we are unable to give you a precise estimate of the proportion of retail pasta prices constituted by packaging costs, we were able to obtain some information related to the question.

According to the plant superintendent at a pasta manufacturing plant, packaging costs constitute about 8-percent of the retail pasta price. By comparison, the price of durum wheat represents a larger share of the retail pasta price than the 8 percent for grain based products overall. Durum wheat prices may account for as much as 15 to 20 percent of the retail pasta price, according to the president of the Durum Wheat Growers Association.

The plant superintendent also told us that packaging costs have risen about 7-1/2 percent in the past year. Polypropylene, which is used for packaging egg noodles and tri-colored rotini, has taken a bigger price jump than paper, and she expects prices to continue to increase in 1989.

An official of the Northern Crops Institute in Fargo, said that their research indicates that cardboard packaging costs would amount to about 5-percent of retail pasta prices, and flexible packaging, about 3-percent of retail prices.

If you have any questions, please call me at 275-5138 or Jeffrey Heil of my staff at 475-4880.

Sincerely yours,

John W. Harman
Associate Director

Enclosure

(The enclosure is retained in the committee file.)

The CHAIRMAN. Mr. Harman, I want to thank you and Dr. Kenney for all the effort you've put into getting this report together. You have obviously worked hard, under some pretty stringent deadlines.

We're looking at the price changes during the past few months and I think what's going to be important, as we go through the winter, is continuing these charts so that we're able to compare just how the prices change.

Now, I take it from this report that there's no clear pattern of price gouging. Is that pretty much what you find?

Mr. HARMAN. No, we cannot identify in this any clear pattern of price gouging. As a matter of fact, if you look back at previous periods when there was not a drought, you will see that commodity prices, in fact, have been going down this whole decade and prices of these other products have been going up. So it's not necessarily a change in the trend whether there's a bigger increase than what may be justified. It's really hard to tell at this point. But at the aggregate level of food prices we looked at, we didn't see any indications of gouging.

The CHAIRMAN. A couple of areas did concern me, and one is the pasta area. In that, as you pointed out the change seems to be more significant than what the retail prices would signify. Is that correct?

Mr. HARMAN. That's what the numbers seem to point out. I think to get an explanation of that, which you may have an opportunity with the witnesses later on to get some explanation of that. But if you look at the increases in prior years, pasta did not increase very much through 1987. What you don't know is whether there were some price increases being absorbed that they weren't passing on.

The CHAIRMAN. While we were out on the drought trips we talked to a number of cattle producers who, especially at the beginning of the drought, were bringing herds to slaughter. There wasn't feed for them or the cost was too high, and the utility cow prices fell as producers sold their herds. But I don't see that same decline in retail. In fact, in hamburger and others, there seemed to be a significant jump. Do you read the data that same way?

Mr. HARMAN. I think on meat that we haven't seen a significant decline.

Mary, you can correct me here if I'm wrong.

She has some figures that she can give you. But there hasn't been a significant decline. I'm not sure I know the reason why that hasn't occurred. Again, there's some fairly complex relationships. The farm value of beef animals does represent a fairly significant part of the retail beef prices. So cow prices are going to affect retail beef prices and it will affect them later on as the cattlemen start to build up their herds and there won't be as much beef on the market. So the supply will likely go down, which is what we experienced in past droughts.

Mary, you may want to——

Dr. KENNEY. Senator, you're quite correct. In June, July and August, utility cow prices went down about 10 percent or more. In fact, at retail, the price of hamburger increased minimally, around 1 percent, but it didn't decline.

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The CHAIRMAN. It did not.

Some of the price increases seem to have started before the drought occurred; is that correct?

Mr. HARMAN. That is correct. We did see some increases prior to the drought in this period that we were looking at, which is the January through August period. There were increases in January, February, and March. In fact, I think it was about a 3 to 4 percent increase in cereal and pasta retail prices prior to the drought. The increases have occurred this year in over half of——

The CHAIRMAN. What triggered some of those price increases?

Mr. HARMAN. Well, I don't think we know specifically at this point. We haven't had an opportunity to get behind the data and talk to people to find out. That's one weakness we have in our information right now; we don't know why some of these things are occurring.

Mary, do you have any information on that?

Dr. KENNEY. Well, we have been told by some industry people that prices of packaging for food products went up significantly during this year and last year, and that packaging costs are an important input to pasta products and other cereal based products. So, possibly, the increase in packaging costs could partially explain the increase in retail prices earlier this year.

Mr. HARMAN. There could have been some labor cost increases. We don't know if there were, but there could have been and such labor cost increases have had a major impact on the price index.

The CHAIRMAN. Again, I would emphasize that we will be fair. We all realize that there will be some price increases connected with the drought and nobody questions that. What we want to do is monitor what the relationship is. Because if a number of these increases are being based on the drought, I want to make sure they actually relate to the change in prices because of the drought.

Are we asking the right kind of questions in monitoring these increases? Should we pose our questions differently? You're the experts in that regard.

Mr. HARMAN. I think, personally, Mr. Chairman, I think the committee has done a wonderful job in terms of taking on this problem—what could have been a problem. You seem to have involved the agencies that can have an impact on what happens out there in terms of prices and monitoring those prices. I know we've been very anxious to help the committee and have been glad to be able to help out in this kind of effort.

The one thing that does seem to need some more explanation is this difference between the producer prices of agricultural commodities and what they contribute to retail food prices and what other costs may contribute, and whether there are increasing profit margins. So I think the committee may want to delve into that issue in a little more detail, and maybe we can help you do that.

The CHAIRMAN. We will. Thank you.

I yield to Senator Bond.

Senator BOND. Have you found, generally, that the retail food industry is competitive? Are normal competitive practices prevalent there? Is it subject to competition?

Mr. HARMAN. Well, of course, we didn't, in this work, take a look at the competitiveness of the food industry. I know there are alle-

gations out there, at least in certain markets, it's not. I don't think, at this point, we're in a position to know one way or another unless, Mary, you would like to——

Dr. KENNEY. That's right, John.

Senator BOND. Did you find any evidence or did you come across any evidence of any anticompetitiveness practices, any evidence that there were agreements or other factors in establishing prices in violation of the antitrust laws?

Mr. HARMAN. Not at this point. I think what I need to emphasize is that we got involved in this in June. So our efforts up to this point have been primarily just to try to identify what's happened to prices and whether there are, from a macro sense particularly, any major disconnects in those prices that we would want to look at.

We haven't been talking to a lot of people outside of agriculture and the Bureau of Labor Statistics. So at this point I don't think we would really have any answer to that either, Senator.

Senator BOND. I guess in summary, from reading the charts, is it fair to say that although there were some real spikes in prices at the producer level as a result of the drought, generally the food buyer, the ultimate consumer has not experienced those same sharp peaks because the producer prices are a small part of the ultimate costs that go into the product which he buys?

Mr. HARMAN. That's true. The lines for the agricultural commodity price changes are much more erratic than the ones for the retail price changes. Most of those lines are fairly level for the retailer and the processor, although on a cumulative basis, there has been—particularly in the foods we've talked about this morning—a fairly significant price increase.

Senator BOND. But that would be normal, I suppose, if the overall costs of producer prices, packaging and labor——

Mr. HARMAN. That's right. We're not saying that there's—that may be completely justified.

Senator BOND. All right. Thank you very much.

Thank you, Mr. Chairman.

Senator HARKIN [presiding]. Thank you.

Senator Conrad.

Senator CONRAD. Mr. Chairman, on page 2 of the prepared testimony, concerning price changes in pasta, cereal and white bread, there's a statement that 43 percent of the increases in pasta and cereal prices and 57 percent of the white bread increase occurred before June.

It appears to me, from looking at the charts, that if you had moved back one month, you would have gotten, perhaps, a different conclusion. Would it be possible for you to provide the committee with what would have happened to those numbers if you had gone back one month?

Mr. HARMAN. We probably can do it.

Senator CONRAD. The reason I ask is that many of us in the producing areas anticipated, after a very dry winter, and dry early spring, that as early as April and May we had the potential for a very dry year. Most likely, others who are in the food industry, perhaps with their very good sources of intelligence, also were anticipating a very dry period. Perhaps if we go back one more month,

we will find that a more significant part of the increases occurred from May on. I'd like to get an answer to that question.

The other point that I think really bears repeating is what a small part of the consumer food dollar the producer is really getting. Your indication on page 3 of your prepared statement is that for pasta, cereal, and white bread, the agricultural share of the retail price was only 8 percent.

Mr. HARMAN. That's correct, in 1987.

Senator CONRAD. And as an example, let's look at Durum. As you know, most of the Durum is produced in my State and we've had a devastated crop. A 40 percent increase in the price of Durum wheat translates into only a 3 percent increase at the retail level, if that is the only factor considered. What you are indicating is that retail prices in pasta rose 6 percent during the June to August period—if we go back a month, perhaps even more. So there appears to be a spread that you've accounted for; about half of it is a result of the agricultural value increase.

People in the industry indicated to you that packaging costs had increased, is that correct? And you thought that was some significant component of the ultimate cost of the product?

Dr. KENNEY. Analysts at USDA and the Bureau of Labor Statistics' indexes for packaging indicate that the costs of packaging have gone up in the last year or so.

Senator CONRAD. Could you give us any notion of the relationship between the cost of packaging and the actual agricultural value?

Dr. KENNEY. In terms of the relative share of packaging, Senator?

Senator CONRAD. Yes. Relative share, exactly.

Mr. HARMAN. We do have that information; whether we have it with us right now.

Dr. KENNEY. For food away from home and at home combined, it's 8 percent, relative to a 25 percent overall value for farm commodities.

Senator CONRAD. So if you would give me those again—8 percent for?

Dr. KENNEY. For food overall, Senator.

Senator CONRAD. How about pasta, cereal, and white bread?

Dr. KENNEY. We don't have—I don't have that information. This is just an average figure.

Senator CONRAD. I recall that a year or two ago, for the first time the total value of the packaging was more than the total agricultural value of our commodities. I am interested if that relationship is still holding true. I think that, too, is a lesson that perhaps could be learned from this. We have a situation in which the packaging has a greater value than the agricultural commodities to the farmers who are producing the commodities that are in those packages. There's an irony in there somewhere.

Mr. HARMAN. That's a very good possibility here with pasta, with an 8 percent; if you look at the overall figures showing a 25 percent for all food, including out-of-home food index, 8 percent there was for packaging.

Senator CONRAD. The figures indicate 8 percent for packaging; and you have 8 percent for pasta, cereal, and white bread as the agricultural value.

Mr. HARMAN. So it's very likely that the packaging——

Senator CONRAD. So there you have a situation where the packaging is worth more than the agricultural commodity that's contained in the package.

Mr. HARMAN. Regarding your question on the increases in May—and I think this is correct—there was a 2 percent retail pasta price increase in May. So you add that to the 6, that's an 8 percent increase. There was a fairly large retail price increase in May for pasta.

Now, there was a 3.2 increase in March which was offset by a 2.3 percent decrease in April, so there could have been some adjustments in that. But you are correct on pasta; at least the figures I look at here. We can get you those figures for those three items we talked about.

Senator CONRAD. I suspected that pattern would be there. That, perhaps, should raise a little bit more concern that perhaps people are seeking to take some unfair advantage of the situation, although relatively slight.

I would be interested in those numbers.

[See GAO attachments for response.]

Mr. HARMAN. We will be glad to provide them to you, Senator.

Senator CONRAD. Thank you very much.

Thank you, Mr. Chairman.

Senator HARKIN. Thank you, Senator Conrad.

Thank you very much, Mr. Harman, and Dr. Kenney.

Mr. HARMAN. Thank you, Mr. Chairman.

Senator HARKIN. Let's call the next panel. Steven Maurer, director of the State Department of Agriculture of Ohio; Ellen Haas, executive director of Public Voice for Food and Health Policy; Richard Bondareff, the president of Bonfeld, Incorporated, of Dumfries, Virginia.

Welcome to the committee. Again, without objection, your statements will be made a part of the record in their entirety. As you testify I will ask you to summarize your statements for the committee.

First of all, welcome, Steven Maurer, director of the State Department of Agriculture of the State of Ohio. Welcome to the committee, and please proceed.

STATEMENT OF STEVEN D. MAURER, DIRECTOR, STATE DEPARTMENT OF AGRICULTURE, COLUMBUS, OH

Mr. MAURER. Thank you, Senator. Senator, it's indeed a pleasure and an honor to have the opportunity to be a part of this panel looking at food prices in this Nation and the effect drought has had upon them.

Senator HARKIN. Excuse me. Before we start, is it correct that you don't have a prepared statement?

Mr. MAURER. I don't.

Senator HARKIN. OK. I just wanted to make sure of that.

Mr. MAURER. During the 1988 drought, nearly every broadcast and print media in this Nation carried stories of how drought reduced crop expectations and was going to cause rapid price increases in food. The Government reported 1.4 percent increase in July for food, and August showed a 0.5 percent increase. There were announcements made by food processors that because of raw agricultural commodity price increases, there would be significant increases at retail outlets.

As it turned out, I think we've seen—for example, bread increased in some instances up to 16 cents per loaf. If farmers would have received all that 16 cents, Ohio wheat prices may have been $11.20 per bushel and not $3.50. A national brand of saltine crackers increased 26 cents a box. I suspect if farmers received all that increase, wheat prices would have been similar to the previous. Corn flakes increased up to 13 cents per 18-ounce package in some areas, and if farmers had received 100 percent of that increase, Ohio corn would have been priced about $8.95 a bushel and not $3.03. Granulated sugar, 30 cents per 5-pound bag in some areas, and the same thing follows through.

I don't believe that anyone in Government—and I remember saying at the time, when the furor over price increases was taking hold and consumers were beginning to blame the American farmer or blame the circumstance of the drought and the increases that farmers were receiving for the increases that they were receiving or expected to receive at the retail level when, in fact, the farmers' share of those increases is substantially smaller, and I don't believe anyone begrudges anyone for increasing their prices when necessary, but I think it's important that those increases reflect what has caused them. We, in the States that have done the food-price monitoring, have made it our intention, as Senator Leahy mentioned earlier, to bring light to the subject and, just by keeping an eye on things, sometimes we help bring light, Mr. Chairman.

I think probably one issue that is overlooked in all this is that as increases have taken place, farmers' share of the American food dollar has remained relatively constant. I think we can see while the farmers' share of the food marketing dollar is about $50 billion overall in this Nation, the marketing dollar—I have the figure here someplace, Mr. Chairman, excuse me—the marketing bill has increased from $193 billion to $400 billion, while the farmers' share has remained constant.

So I think in looking at this a greater issue than the increases that have taken place and what has happened to the consumer and who should be blamed, if anyone should be blamed for these price increases, is the problem we have of the food bill going up and the farmers' share remaining virtually constant. That is a greater issue than the increase in food prices relative to the drought, and certainly one that needs to be brought to the attention of the American people so that, one, the American farmer isn't blamed when the price goes up in the grocery store and, two, that they understand the necessity of helping make farmers profitable in this country.

I suppose, Mr. Chairman, a good example of what has taken place in terms of the food prices can be seen in July and August, when the Consumer Food Price Index increased 1.9 percent. That

added, on an annual basis, $92.66 to each family's food bill in just 2 months. The fact remains that farmers received about 65 cents of that $92.66; and in some instances, raw product went down.

So I think it's incumbent upon us to, one, bring light to the subject; that is make certain that farmers, in particular, and agricultural, generally, is not the one that needs bear the brunt of the blame, and that people just be honest as to why they have to raise their prices; and, secondly, raise the larger issue of looking to farm profitability so that the American farmer gets a better share of the American food dollar.

Thank you, Mr. Chairman.

Senator HARKIN. Thank you very much for your testimony, and for being here.

The next panel member is Ellen Haas, executive director of Public Voice for Food and Health Policy. Welcome.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY, WASHINGTON, DC

Ms. HAAS. Thank you very much, Senator Harkin. It's a pleasure to be here.

Our testimony today is really not only for Public Voice, but we're joined also in this testimony with Consumer Federation of America which is a federation of 240 pro-consumer groups, 50 million members, and I've been president—I guess I feel very old—five times.

We felt very strongly, as the drought kept getting worse and worse and eventually became, probably, the worst drought in America's history, that the consumer had a great stake in all of this and that there was a concern about the potential for increases in food prices—both justified and unjustified price hikes. In response to this, Public Voice and CFA joined together in a campaign to help ensure that food prices would not rise unreasonably.

Our most pressing concern was the fact that higher food prices fall heaviest on those who can least afford it. Today, there are 32.7 million people living below the poverty line. According to a recent nationwide survey, conducted by USDA's Cooperative Extension Service, the average low income household in the United States spends 61.5 percent of its total income on food. They would be feeling the most brunt, and food stamps, unfortunately, would lag in being able to make up in their benefits.

We took several measures to deal with the drought and consumer concerns. First, we met with Secretary Lyng and asked him, while expressing our belief that USDA should be monitoring retail and wholesale food prices, we asked him that the Department of Agriculture undertake such a monitoring project. His response was not favorable. However, in contrast, we were very pleased that the committee, under the leadership of the chairman and Congressman Dan Glickman in the House, did show concern for consumers by making certain that food price monitoring by the Department of Agriculture was part of the Drought Assistance Act of 1988.

Our second step was to contact the presidents of the 70 largest supermarket chains in the country. A letter is attached to my prepared testimony. We urged them to make a special effort to keep price increases down on their store brands. In addition, we asked

that they question suppliers about any unreasonable price increases that they might find.

Our third action is still ongoing; it is a monthly price survey of food staples around the country. Local affiliates of CFA conducted the survey on 17 food staples from 46 supermarkets in 16 areas. Actually, the groups ranged from the Alaska PIRG (Anchorage), a consumer organization, to the Virginia Citizens Consumer Council. I have attached charts that detailed the food price changes that we've noted. In particular, we compared July and August food prices which revealed the following trends:

One, which was the surprising one, more beef prices, sirloin, ground chuck, and ground round, were what we checked, rose than fell, and the price rises were typically larger than the declines. For example, at 35 percent of the supermarkets, the price of sirloin rose, but at only 25 percent did it decline.

Second, the prices of dairy products are not rising as rapidly as many experts had feared. More stores raised than lowered prices for milk and butter, but these increases were fairly modest. A surprising, interesting, positive note during the summer, 80 percent of the stores in the sample did not change their price of ice cream.

Third, the price of some wheat products rose more rapidly than expected. In particular, at half of the sampled stores, the price of Wheat Chex went up, with a median increase of 10.4 cents.

Fourth, the prices of fresh fruits and vegetables rose somewhat more rapidly than predicted, especially for plums which was one of the fruits that we checked.

Our survey suggests that in late July and early August, there was no extensive price gouging. Consumers keeping a watchful eye on the marketplace have played a protective role. Consumers spotlighting on this issue, hopefully, has had and will continue to have a dampening effect on any artificial inflation. And congressional involvement in this issue has been an effective force in keeping prices reasonable. We cannot say, however, that no excessive price increases occurred anywhere. In fact, some questions were raised, especially regarding meat prices and some processed wheat products. But generally speaking, the worst case scenario for consumers has not materialized. With continued monitoring and involvement by consumers—and we will be continuing the monitoring in the next 2 months—all those affected by the food system, we think, will benefit, and we hope our findings continue to support fairness in the marketplace.

Thank you.

[The prepared statement and attachments of Ms. Haas follow:]

PUBLIC VOICE FOR FOOD & HEALTH POLICY

1001 Connecticut Avenue, N.W.
Suite 522
Washington, D.C. 20036
202 659-5930

TESTIMONY OF
ELLEN HAAS, EXECUTIVE DIRECTOR
PUBLIC VOICE FOR FOOD AND HEALTH POLICY
BEFORE THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
REGARDING
CURRENT FOOD PRICES
OCTOBER 5, 1988

Chairman Leahy and members of the Committee, good morning. I'm Ellen Haas, Executive Director of Public Voice for Food and Health Policy, a non-profit consumer research, education and advocacy organization focsuing on food, agriculture and health issues. Consumer Federation of America, (CFA), a federation of 240 pro-consumer groups with 50 million members, joins us today in submitting this testimony.

We appreciate the opportunity to share with you our involvement and findings relating to current food prices. This summer's drought, often described as the worst in America's history, gave us great concern about the potential for increases in food prices--both for justified and unjustified price hikes. In response, Public Voice and CFA joined together in a campaign to help insure that food prices would not rise unreasonably in these recent months, with the drought used as a justification.

One of the most pressing reasons for our actions is the effect of food prices on poor Americans. Higher prices fall heaviest on those that can least afford it. Today there are 32.7 million people living below the poverty line. They would be the ones most affected by any unwarranted food price increases. According to a recent nationwide survey conducted by USDA's Cooperative Extension Service, the average low income household in the United States spends 61.5 percent of its total income on food.

We took several measures in response to the drought. First, we met with Secretary Richard Lyng of the U.S. Department of Agriculture (USDA) to express our belief that USDA should be monitoring retail and wholesale food prices. His response was not favorable. However in contrast, we were very pleased that you Senator Leahy, along with Congressman Dan Glickman and other Congressional colleagues, showed leadership and concern for consumers by making certain that price monitoring by the Federal government was part of the recently passed Drought Assistance Act of 1988, P.L. 100-387.

Our second step was to contact the presidents of the 70 largest supermarket chains. We urged them to make a special effort to keep price increases down on their store brands. In addition, we asked them to question suppliers about any seemingly unreasonable price increases.

Our third action is still ongoing; it is a monthly price survey of food staples around the country. Local affiliates of CFA conducted the survey on 17 food staples from 46 supermarkets in 16

areas. The 14 organizations which collected the price data are:

Alaska PIRG (Anchorage)
Association of Massachusetts consumers (Boston)
Consumers League of Ohio (Cleveland)
Idaho Consumer Affairs (Boise)
Consumer Education & Protection Association for Kansas (Manhattan)
California PIRG (Los Angeles and San Diego)
Mercer County Community Action Agency (Mercer Co., PA)
Concerned Consumers League (Milwaukee)
Arizona Consumers Council (Phoenix and Tucson)
Empire State Consumer Association (Rochester)
Consumer Action (San Francisco)
Consumer Affairs Committee, Americans for Democratic Action (Washington, DC)
American Council on Consumer Awareness (St. Paul)
Virginia Citizens Consumer Council (VA)

The attached charts detail the food price changes that were noted. In particular, a comparison of the July and August food prices revealed the following trends:

1- More beef prices (sirloin, ground chuck, ground round) rose than fell, and the price rises were typically larger than the declines. For example, at 35 percent of the supermarkets, the price of sirloin rose, but at only 25 percent did it decline. Also, the median increase was 14.1 cents while the median decrease was only 9.0 cents. Agricultural economists agree that beef prices should have been falling in this period because so many cattle were being sent to market.

2- The prices of dairy products are not rising as rapidly as many experts had feared. More stores raised than lowered prices for milk and butter, but these increases were fairly modest, 3-5 percent typically. Eighty percent of the stores in the sample did not change their price of ice cream.

3- The price of some wheat products rose more rapidly than expected. In particular, at half of the sampled stores, the price of Wheat Chex went up, with a median increase of 10.4 cents.

4- The prices of fresh fruits and vegetables rose somewhat more rapidly than predicted, especially for plums. Yet, even though more stores hiked corn and broccoli prices than reduced them, median price decreases were typically larger than increases.

5- Within the sample, price jumps were most likely to occur in Boise, Idaho; Mercer County, Pennsylvania; and San Francisco, California. Our price checks indicated that price hikes were least likely to take place in Washington, DC; Manhattan , Kansas; Cleveland, Ohio and Los Angeles, California.

Our survey suggests that in late July and early August, there was no extensive price gouging. Consumers keeping a watchful eye on the marketplace have played a protective role. Consumers spotlighting this issue hopefully has had and will continue to have a dampening effect on artificial inflation. And Congressional involvement in this issue has been an effective force in keeping prices reasonable. We cannot say, however, that no excessive price increases occurred anywhere. In fact, some questions were raised, especially regarding meat prices and processed wheat products. But generally speaking, the worst case scenario for consumers has not materialized. With continued monitoring and involvement by consumers and all those affected by the food system, we hope our findings continue to suggest fairness.

(Attachments follow:)

FOOD PRICE CHANGES AT 46 SUPERMARKETS, JULY-AUGUST, 1988

Item	Increase	Decrease	No Change	Median Increase (cents)	Median Decrease (cents)
Sirloin	35%	25%	40%	14.1	9.0
Ground chuck	31%	23%	46%	12.5	6.7
Ground round	28%	28%	44%	15.5	9.6
Chicken	20%	37%	43%	21.5	11.2
Milk	30%	7%	63%	3.1	9.2
Butter	29%	7%	64%	4.6	3.9
Ice cream	9%	11%	80%	26.5	12.8
Margarine	29%	11%	60%	17.5	22.7
Vegetable Oil	33%	9%	59%	7.7	3.8
Wheaties	26%	19%	56%	9.9	7.7
Wheat Chex	50%	16%	34%	10.4	8.2
Broccoli	31%	10%	60%	9.2	10.2
Corn	39%	14%	48%	9.2	17.9
Raisins	13%	13%	74%	6.7	12.6
Plums	40%	19%	42%	34.0	11.3
Canned Tomatoes	16%	21%	63%	17.5	12.7
Spaghetti	23%	23%	53%	13.7	10.2

FOOD PRICE CHANGES AT SUPERMARKETS BY AREA, JULY-AUGUST, 1988

Area	Increase	Decrease	No Change
Anchorage, AL	31%	21%	48%
Boston, MA	26%	9%	65%
Cleveland, OH	20%	13%	67%
Boise, ID	44%	24%	32%
Manhattan, KS	23%	32%	45%
Los Angeles, CA	19%	23%	57%
Mercer Co., PA	49%	16%	35%
Milwaukee, WI	32%	13%	55%
Phoenix, AZ	26%	28%	47%
Rochester, NY	18%	16%	65%
San Diego, CA	24%	18%	58%
San Francisco, CA	42%	4%	53%
St. Paul, MN	29%	10%	61%
Tucson, AZ	35%	23%	42%
Virginia	24%	11%	65%
Washington, D.C.	13%	22%	66%

PUBLIC VOICE FOR FOOD & HEALTH POLICY

1001 Connecticut Avenue, N.W.
Suite 522
Washington, D.C. 20036
202 659-5930

July 21, 1988

Dear Supermarket President:

We are writing to you on behalf of our consumer organizations, representing a nationwide network of state and local consumer groups committed to ensuring that Americans have a safe, nutritious and affordable food supply. The ongoing drought is the impetus for this letter. We are concerned that because of the drought Americans may already be seeing increases in food prices--some justified and some unjustified.

Higher food prices fall heaviest on those that can least afford it. Today there are 32.7 million people living below the poverty line. They would be the ones most affected by any unwarranted food price increases. According to a recent nationwide study conducted by USDA's Cooperative Extension Service, the average low income American household spends 61.5 percent of their total income on food.

Because of this impact, we ask that your company make special efforts to restrain food price increases on your store brands. Also, we ask that your employees watch for price increases from processors and suppliers and that you encourage them to question any increases that appear unjustified or excessive.

Our organizations have already spearheaded efforts in diverse states, from Alaska to New York, to survey food staple prices at retail. Consumers will be monitoring prices of a broad variety of foods, including among others: breakfast cereals, beef, poultry, pasta, vegetables and fruits, cooking oils and dairy products. We believe that consumers can expect prices of foods in these categories to decline, remain the same, or increase only slightly over the next three months.

For the last decade your industry has described its role as the "buying agent for the consumer." This is an opportunity to demonstrate this commitment. Thank you for considering our request, and please contact either of us if we can be of any assistance.

Sincerely,

Ellen Haas
Executive Director
Public Voice for
Food and Health Policy

Stephen Brobeck
Executive Director
Consumer Federation
of America

Senator HARKIN. Ms. Haas, thank you very much.

We will now turn to Richard Bondareff, president of Bonfeld, Inc.

STATEMENT OF RICHARD BONDAREFF, PRESIDENT, BONFELD, INC., DUMFRIES, VA

Mr. BONDAREFF. Thank you.

I am really representing—or wearing three hats this morning. I'm speaking on behalf of the Food Marketing Institute; on behalf of my wholesaler, Richfood, Inc.; and also as an independent grocer. What I will try to do, briefly, is explain what goes on in a supermarket and why we have the prices we do have today.

First, on behalf of the Food Marketing Institute, we represent 1,600 members. We have 17,000 retail food stores with a combined annual sales volume of $180 billion of sales, which is about half of all the grocery sales in the United States. We really are the contact for most shoppers within the food system. I think Senator Leahy spoke to that when he was in a store and he saw a sign saying, "Expect high prices because of drought." It wasn't in one of my stores. We are also the buying agent for our customers, and we take that job seriously.

The figures that are going to be released by the FMI in its annual financial review, I think, speak to how competitive this business is. Our members' profit structure fell, after taxes, from 1.12 percent last year to .77 percent this year. Now, that's less than a penny on every dollar of sales. That shows how efficiently we operate. Our position is that we really are a conduit for food prices. When a food price goes up, we reflect that increase in food prices; when a food price goes down we also reflect that decrease.

Now, from my wholesaler's point of view. Richfood is a $1.2 billion wholesaler. We operate out of Virginia, but we operate in five States and in the District of Columbia. We have 750 stores. I think we're a little unique. We were a co-op up until May of this year, when we took the company public. We went through a public offering. I served as chairman of the board at that time, and I am still currently chairman of the board of this corporation. Our board is made up mostly of retailers who are customers of Richfood. We think we operate as a fair wholesaler and are fair to our retailers.

Some of the facts or some of the increases that we felt at Richfood this summer—as an example, several cereal manufacturers had 4 to 5 percent increases, and flour had some increases. Dog food went up 6 percent.

Now, what we do at the wholesale level, when a manufacturer announces a price increase, we announce that to our retail customers who have an opportunity to buy the product before the increase goes up. When we receive the new product from a manufacturer, that new product is priced at the new cost, and that is reflected to the retail customer. We also provide, for many retail customers, retail pricing support, and we set—the wholesaler sets, for many customers, the retail prices.

Now speaking as an independent grocer, and probably where I'm most comfortable because I spend most of my time running my stores, I operate three supermarkets in northern Virginia. And,

really, in my opinion, it's the competition in this business, more than anything else, that keeps prices low at the retail level.

When costs decline, such as lettuce—if lettuce were to drop $2 a case, we drop our cost to reflect that drop in a case, because I know that my competitor down the street will have lettuce at a lower cost and he will drop his prices. We do price checks weekly on many commodities, and more quarterly on the whole store, to see where our competition is so we can maintain our competitive edge with our competitors.

We have, from time to time, absorbed costs. Recently, we've had a milk price increase. Now, I'm not sure if it's because of the cost of the raw product or it's because of the cost of plastic which has been going up tremendously. We have not raised our milk prices because our competitors haven't raised their milk prices. We will absorb that cost until we can pass that cost along.

We really are—I guess the best way to describe it—on the ballot every day for our shoppers' food dollars. They can go down the street. And we do what we can do to keep our prices low by employing new technology, use computers, be more productive in our labor. We bring in new products that were found in specialty stores. For instance, like frozen yogurt and baked goods that are sold at specialty stores at a higher price, we now sell them at supermarket levels. That's what we do in our end of the food business.

In conclusion, I'd like to say that I think we try to do our part, because of the competitive nature of the business, to just pass the minimal amount through when we do; we pass the cost decreases along too, so to keep the food prices in line.

I also welcome you to visit my stores—they're not that far from here—you can come down and see what we do.

Thank you.

[The prepared statement of Mr. Bondareff follows:]

SENATE AGRICULTURE COMMITTEE HEARING ON THE EFFECT OF THE DROUGHT ON FOOD PRICES

STATEMENT BY

RICHARD BONDAREFF

PRESIDENT OF BONFELD, INC.

DUMFRIES, VIRGINIA

OCTOBER 5, 1988

SENATE AGRICULTURE COMMITTEE HEARING ON
THE EFFECT OF THE DROUGHT ON FOOD PRICES

Mr. Chairman and members of the Agriculture Committee, I am Richard Bondareff, President of Bonfeld, Inc. in Dumfries, Virginia. I operate 3 supermarkets in Northern Virginia and am also Chairman of the Board of Richfood, Inc. which is a publicly owned food wholesaler. Richfood operates in the five states of Maryland, Delaware, Virginia, West Virginia, and North Carolina and the District of Columbia. We have over $1.2 billion in annual sales and serve over 750 stores.

I also serve on the Board of Directors of the Food Marketing Institute and serve as Chairman of its Government Relations Committee. The Food Marketing Institute (FMI) is a nonprofit association conducting programs in research, education and public affairs on behalf of its 1,600 members -- food retailers and wholesalers and their customers in the United States and overseas. FMI's domestic member companies operate approximately 17,000 retail food stores with a combined annual sales volume of $180 billion -- more than half of all grocery sales in the United States.

As is the case with all supermarket operators, FMI's members are directly impacted by what occurs in the farming communities. We see it in our sales when producers and others working in related industries that are facing hard economic times come into our stores as consumers. We also see it in the prices that we have to pay when we are buying food from producers, suppliers or manufacturers for our customers.

The 1988 drought in the Midwest confronts the entire food distribution system with a serious challenge. No one wants to see farmers suffer irreparable harm from weather conditions beyond their control or to see consumers faced with opportunistic price increases.

As purchasing agents for the consumer, supermarket operators throughout the United States face a dilemma. Our very contact with consumers means that we are the only visible part of the food system for most shoppers. Yet, most of the price is already determined before products reach our shelves. When we pass on price increases, we may be accused of price gouging or taking advantage of farmers. However, our industry has little or no ability to absorb commodity price increases in the short run.

According to FMI's 1987-88 Annual Financial Review, which will be released shortly, our industry's net profit as a percentage of sales fell from 1.12% last year to 0.77% this year. That is less than a penny of every dollar of sales. It really leaves us precious little room to maneuver when the price of the goods we buy goes up. This means that as our cost of goods increases, these costs must be passed along at retail.

During a drought or heat wave, some production effects are felt quickly, such as reduced yields for sweet corn and fresh vegetables or high death losses for poultry. Other effects are felt only over time as reduced grain yields raise livestock feeding costs. But in every case, price increases by our suppliers mean price increases at retail.

Let me give you some examples of price increases that Richfood, my supplier, incurred this past summer:

* A major cereal manufacturer declared a price increase of 4.6%. The immediate response by retailers was to purchase inventory at the "old cost." This created extra demand on the wholesaler who placed heavy orders with the manufacturer. Production time was not available to fill the orders -- allocation was placed on all goods ordered by the wholesaler -- the wholesaler did not have product available for the retailer. The retailer did not have product available for the consumer. Both the wholesaler and the retailer are only conduits between the manufacturer and the consumer.

* A major dog food manufacturer announced a 6% price increase with the same reaction.

* A major flour manufacturer announced two price increases in two weeks with an immediate allocation placed on the wholesaler and retailer.

* A major salmon fish canner has currently placed allocations on product due to the lack of sufficient product to pack.

* Price increases submitted by manufacturers to a wholesaler such as Richfood are passed on to retailers in the following manner:

The manufacturer submits a price increase with shipments of a pre-determined date. This effective date is published by Richfood in writing to the retailer. Only when the higher cost inventory is received by the

wholesaler, and not before, is the increase passed on to the retailer, who in turn passes on the increase to the consuming public. Once again, both wholesaler and retailer are conduits for the manufacturers' price increase.

As an independent operator, I believe that the competitive nature of our business is a major contributor to holding down food prices.

While we do pass on price increases, we just as quickly pass price reductions through to our customers. In our produce section, our prices change with each delivery of fresh product, which can occur daily. If lettuce falls to $2.00 a case, you can bet we drop our price on the shelf, because we know that our competition down the street has lowered their price.

In my company, we price check our competitors weekly on many items and quarterly on all items in order to remain competitive. We know our customers compare our prices with others and if there is a better value down the street then that is where they purchase their food.

We continue to keep pace with new uses of computers in an effort to keep reducing costs as well as better management tools to keep our labor as productive as possible.

Our stores continue to offer new products at supermarket prices, such as frozen yogurt, baked goods, and prepared foods, which were once sold at more expensive specialty stores.

Mr. Chairman, I will be more than happy to respond to any questions that you or other members of the committee may have. Thank you.

Senator HARKIN. And comparison shop; right?

Mr. BONDAREFF. Right.

Senator HARKIN. Your stores are called Richfood?

Mr. BONDAREFF. My stores are called Bonus, and they are located in Woodbridge, Virginia; Dumfries, Virginia; and down in Stafford. Richfood is our wholesaler. We don't have any corporate stores. We're all independent grocers.

Senator HARKIN. I see. Well, I recognize the competitive nature of your industry. That's what I said in my remarks; I said one of the best bits of advice I could give to consumers would be to comparison shop, look around. If you've been going to one store and you think that there's some price gouging going on, take a look at the other store. That happens all the time, and I think it's one of the best ways that consumers can really keep a check on any possible price increases that may be going on out there. So I would hope that the consumer would do that. I know they do anyway, but especially in the coming months when I think the effects of the drought will be felt during the winter months.

That advice may not hold true for some of our low income people, whom Ms. Haas has talked about, who spend upwards of—what did you say?

Ms. HAAS. 61 percent.

Senator HARKIN [continuing]. 61 percent of their income for food. In many cases, they don't have the ability to comparison shop; they're locked in an area, they don't have the transportation, they can't move around as well. So that demands our attention in a different area.

Mr. Maurer, I've noticed, in looking at the data for beef and for pork, in particular, that the margin between the farmer and the retailer has grown in the past year or so. I've noticed, in reviewing the historical data, that we were down to a record low of the consumer's food dollar going to the farm in April of this year—that's for beef and for pork.

How do we correct that? Do you have any suggestions on how we increase the portion of the food dollar that goes back to the farm? You touched on that in your testimony. How can we do that?

Mr. MAURER. Senator, I would hope that you could tell me that. I wish I knew the answer.

I think one problem we have in the food industry—it's endemic to the processing industry and certainly to the meat industry, and that is the ever increasing concentration of the processors, to a point where processors have more of a say in the control of the markets, much more than what a farmer can. The farmer is at the mercy of, if you will, those folks who are buying the product and processing it. As that concentration becomes more and more, I think the farmer is going to be left out more and more, and left out of the marketing system in general.

So if we can find ways to encourage or slow down that concentration in the processing industry, I think we will do a lot to help the farmer and his ability to have a greater share of that dollar.

Senator HARKIN. I would point out that we're again facing a situation with both beef and pork that is cause for concern. I don't say alarm, but at least concern. And that concern is, do we see an adequate number of buyers and processors out there.

Mr. MAURER. Absolutely, Senator.

Senator HARKIN. I think three or four beef processors now who control something like 80 percent of the market.

Mr. MAURER. That's right.

Senator HARKIN. The same trend is occurring in the pork industry now. In my State, in the past, a hog farmer out there finishing off some hogs might get a buyer from two or three different packers coming around, bidding against each other; now you may have only one. The farmer is locked into that market, and that's that. The farmer can't put them in a truck and take them 200 miles away; that would forfeit any kind of profit margin the farmer had.

I think that is a great cause for concern, the concentration in that industry that's occurring. Again, we do see the competitive nature of the packing industry, competition was there before. I assume that packer concentration must be occurring out your way, too, in Ohio.

Mr. MAURER. It certainly is, yes. I think that's a concern—not only your concern; mine. I know the other directors, commissioners and secretaries of agriculture around the Nation share that, and passed a resolution in our last meeting in Reno in regard to that, requesting the USDA to study that issue.

Senator HARKIN. Oh, you did. What was your resolution?

Mr. MAURER. Requesting the USDA to study the issue of concentration.

Senator HARKIN. I see.

Ms. HAAS. Senator Harkin, this is an issue, I think, that consumers share the concern with farmers. Because the lack of competition, particularly in the meat industry—and we've talked about it for more than 15 years, actually—really artificially inflates prices, as well, for the consumer. So, really, the farmer and the consumer are hurt by this situation.

Not only does USDA have to study it, but we've looked to the FTC and the Justice Department in the past to look into antitrust practices, and would be hopeful in the coming year that there needs to be that kind of examination again.

Senator HARKIN. Like I say, I'm not ringing alarm bells, but it's cause for concern, something we ought to be monitoring.

Ms. Haas, in your testimony, you mentioned that you contacted the presidents of 70 large supermarket chains.

Ms. HAAS. Right.

Senator HARKIN. What kind of response—responses have you received from that effort?

Ms. HAAS. We've gotten an interesting response. We had a meeting with the president and the high leadership of Giant Food who indicated a desire on their part to work with us in identifying some of the problem areas. And just yesterday, I received a letter from the president of Ralph's Grocery Store, and I was pleased to see the ad that they ran in a recent—I guess in the newspapers, and they control the major share in the Los Angeles market. It says, "The drought is raising prices but Ralph's is holding the line." There were two indications. I also got another——

Senator HARKIN. Is that Ralph's Pretty Good Grocery?

Ms. HAAS. Also, there was another supermarket in Texas that sent us, as well, an ad that they had done on price freezes. So we

did get from a few, certainly not a large proportion of that 70, a responsiveness.

We also met with FMI as a result of our effort and talked about ways that we can work together on monitoring and raising awareness about the drought and its relationship to food prices.

Senator HARKIN. You also talked about beef prices. You said that in 35 percent of the supermarkets the price of sirloin rose, but in only 25 percent did it decline. The median increase was 14 cents; the median decrease was only 9 cents.

Ms. HAAS. Yes.

Senator HARKIN. Agricultural economists believe that beef prices should have been falling because of so many cattle going to market.

Ms. HAAS. Right.

Senator HARKIN. Again, that raises a cause for concern.

Ms. HAAS. Prior to our survey, we met actually with a bipartisan group; two ag economists who had worked in Republican administrations and two who had worked in Democratic administrations, and also talked to the Department, and got their projections beforehand, particularly about beef. I think we heard earlier, when the GAO testified, about the great amount of cow liquidation, which really should—consumers should have seen the benefit in ground beef prices. And what we're finding is that in too many markets, they did not see that benefit.

In some markets, they did. We found great variations across the country of prices, and transportation was not always the biggest factor. Some of the places in the Midwest didn't do as well as one would have thought.

Senator HARKIN. Your surveys focused on the retail level of the food chain?

Ms. HAAS. Right.

Senator HARKIN. The supermarket. And as has been pointed out, there are other areas and cases, legitimate cases, where the prices go up. Mr. Bondareff mentioned plastics were up 6 percent in the first half of this year. How do you determine, Ms. Haas, if a supermarket's price increase is justified? What factors go into that determination?

Ms. HAAS. We didn't—what we based our—what we really presented—let's step back a moment—were the facts as we recorded them. What we did was meet with a group of ag economists to get their projections and to see if what we found in the marketplace, without any in-depth analysis, reflected what those projections were. And the only places where we saw those questions—I mentioned one was beef and the other was some of the processed wheat products.

At this point, though, we did not find anything that looked like it was excessive. All this does is reflect the trends in one month, and I think that's too short a time to really be able to come to any mighty conclusions. But we are going to continue, and we hope that the trend will stay as favorable as it has between July and August.

Senator HARKIN. Any other suggestions that you would have that you would make to the Secretary of Agriculture about monitoring food prices?

Ms. HAAS. I think it's important for the Department to play the role in providing the information, because an informed consumer probably is a protection in the marketplace of fair prices. I think that the Department should aggressively monitor prices; and now that Congress has instructed them to, I'm sure they will do a job of it.

Senator HARKIN. Mr. Bondareff—I want to make sure I get that name right.

Mr. BONDAREFF. That's correct.

Senator HARKIN. Thank you. There have been and continue to be a number of mergers and takeovers in the food industry. The paper this morning had an article on Pillsbury, another on Kroger, both involving takeover actions. And again, most of these are debt-financed, which will add to the interest costs of the companies.

From your end of the industry, as you say, the retailer does pass on these costs to the consumer. Do you have any thoughts on these mergers and acquisitions, and the costs they might add that you have to pass on, as a retailer?

Mr. BONDAREFF. Well, sometimes I wish I could be acquired and then I wouldn't have to be in this competitive business.

You know, from my perspective, I operate three stores; I don't operate 1,700 like Kroger does. I think that's just the nature of what's going on in the acquisitions. It's not only affecting the food business, but also other industries. I think the food business is a stable business. We're stable during all times, whether it's during inflationary periods or also during recessions. I think that's because of the competitive nature of the business and because we keep prices in line, so we are stable. Maybe that's why we become attractive to some investors.

I suspect that it could be possible that it does add cost. But then, if Kroger goes through a leverage or however they're going to resolve their problem, they still have to compete with the other stores. They can't pass those costs through to the consumer or they will lose their market share. So they have to find other ways, I suspect, to cut their costs; maybe lower their profits.

I believe Ralph's—there was an article in "Supermarkets News" that Ralph's—they've gone through a leverage buyout—that they're going to take the position to cut their profits for the next several years to continue to keep their company viable and competitive. So I don't think—it seems to me that it will not be passed through to the consumers, these additional costs.

Senator HARKIN. Any other thoughts on that, anyone?

[No response.]

I appreciate all of you being here.

I was just informed by staff that the processors were invited to testify here today but evidently as late as last week they declined to come up and provide us with information. That is really too bad. So I do appreciate the retail sector being here today to testify.

No one here is out there trying to get someone or do anything like that. I think what we're all interested in doing is making sure that the system operates well and that there isn't any price gouging going on; that there aren't unfair price increases passed on to consumers; and that the drought does not provide an excuse for that kind of activity.

I think Chairman Leahy said something about turning on the lights and just keeping the lights on for a while, which is always good to do. But I'm sorry that the processors couldn't be here.

One question, Mr. Bondareff, again, a more specific nature, dealing with beef prices. When you look at the value of a beef carcass at the farm, at the processor and retail level, it seems to me that the margin took a big jump from May to June. "Agricultural Outlook" stated that the spread from carcass to retail in May was 87 cents a pound, but that it grew to $1.01 cent per pound in June. That's a 16 percent increase in one month in the spread.

Could you describe to me how the industry, in general, determines these margins, particularly for beef? If that's something that's beyond your realm of knowledge that's fine; you can just say no.

Mr. BONDAREFF. It really is. In my end, in the grocery store, in my three stores, we don't deal directly with packers. We go through our wholesaler and also we go through a local distributor in this area, and we basically check between them. Now, they deal with the packers. And I think there's a limited number of packers, and prices do go up and down. I don't think—I know pork prices at retail are down at this point. Beef prices did not fall as much as we thought they would, and I've been led to believe that was because there just weren't that many volunteers from the beef herds. They didn't kill off. I think there was some of the utility herds that went to slaughter, but that didn't have a large impact.

Senator HARKIN. I want to make one other observation about retail price increases in general. See if this strikes a responsive chord with you, Mr. Bondareff—and I would ask all of you the same question. I think more and more of the increases are consumer-driven in that more and more people are buying convenience foods, prepackaged foods, something easy to prepare—stick it in the microwave, take a couple of minutes, get it back out—and they're demanding that convenience. It costs more to eat that way, obviously, than it does if you're going to take the time and prepare the meal yourself at home.

I have become more and more aware of this in the last few years myself as I have looked into this. I used to wonder about what farmers were getting and look at what people were paying in the store, but then I began to understand what people want to buy in the store. They weren't buying the raw products; they were buying something that could be microwaved and put on the table ready to go. That's labor-intensive, it's packaged intensively, and that costs more money.

I wonder if you have any comments or observations on that.

Mr. BONDAREFF. I think that's true. I think we're finding, in the supermarket industry, to maintain our share of the food dollar, because we do compete with outside—you know, with restaurants and other food services—that we have to be convenient; and in the trends today, people are looking for convenience. That's part of the formula, the pricing formula. It's really value, what is the value to the consumer; whether it's in time saved in making a meal or doing more and more prepared foods.

You're right. That takes labor; it takes equipment; packaging. All those are components of the product. I would like to think—

and I think if they are purchased, they are of value, so the price is correct. If it wasn't of value, if the price was too high, people weren't going to buy it. So as we continue to develop more foods, surely that value added will be reflected in the price. But, still, the component will be to the consumer; that's what they want. They save time.

Ms. HAAS. I think there are two trends. I think, certainly, you have the trend you're talking about in the processed food products. But as more and more consumers are concerned about the relationship of diet and health, and the Surgeon General's report, we see an increasing trend in fresh fruits and vegetables. Again, not in the processed type necessarily, but ones that you can fix quickly—maybe in a microwave, but it doesn't need the added cost.

Also, I think that the beef and chicken prices and the real sales in those areas are still in the fresh product, the one that doesn't have all that packaging. So I think you have two things happening there. You certainly have part of the trend going to the highly advertised products, lots of packaging, lots of fancy stuff, but we also have another trend happening; and I think it's important to watch both of them.

Senator HARKIN. Interesting point.

Mr. MAURER. Senator, I think it's absolutely true that the farmer's share of high tech foods, if you will, is going to be much less than that of the flour, bread and sugar, milk; but the fact remains that the farmer has been getting less of the food dollar in those categories also.

Senator HARKIN. In what Ms. Haas was just talking about, in meat and less processed foods like that?

Mr. MAURER. Yes, I think so.

Senator HARKIN. You mentioned that the beef spread increased from May to June—that it went up just in one month.

Ms. HAAS. But it may not be because of those high tech and packaging reasons. It might be more because of the concentration and lack of competition that we talked about earlier.

Senator HARKIN. That could be.

Thank you all for coming. Our purpose was to hear from you and also from GAO. And we also have a CRS study.

[The prepared statement of Geoffrey S. Becker, CRS, follows:]

88-633 ENR

CRS REPORT FOR CONGRESS

EXPECTED IMPACT OF THE DROUGHT ON FOOD PRICES AND FEDERAL FOOD AID

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EXPECTED IMPACT OF THE DROUGHT ON FOOD PRICES AND FEDERAL FOOD AID

SUMMARY

The sweeping drought of 1988 will affect the food bills of all consumers, including the poor. However, weather is not the only reason food prices increase or decrease.

USDA economists have predicted that the drought might add about one percentage point to food price inflation in 1988 and about two percentage points in 1989. Including those additional points, food prices might rise anywhere from 3 to 5 percent overall in 1988 and 6 to 9 percent overall in 1989, some economists have estimated.

USDA and other experts say that the effects of the drought on food prices will be moderated by a number of factors. Among other things, the farmer's share of each retail food dollar was only 25 cents in 1987. The United States also has a diverse food supply, as well as stocks from prior years. Still, food price increases have a greater impact on low-income families, who must spend a significantly higher portion of their income on food, than on the average U.S. consumer.

Drought-induced food price changes could affect the availability and cost of food provided through the Federal Food Stamp and child nutrition programs. They are indexed to account for food price changes, but this indexing lags significantly behind actual increases. Food price inflation does not affect the value of the monthly food package provided under the Special Supplemental Food Program for Women, Infants and Children (WIC), which by law cannot be reduced. However, unanticipated cost increases can mean that fewer clients will be served--although Congress generally appropriates enough money each year to at least maintain the previous year's caseload level. Beneficiaries of direct USDA commodity donations (like the Temporary Emergency Food Assistance Program) will be affected to the extent that the drought further shrinks the already diminishing amount of commodities available from USDA surpluses.

Because of its effects not only on USDA surplus supplies but also on raw commodity prices, the drought also could reduce the volume, and commodity composition, of international food aid provided through the Food for Peace and Section 416 programs.

NOTE: This report originally was prepared at the request of the House Select Committee on Hunger.

EXPECTED IMPACT OF THE DROUGHT ON FOOD PRICES AND FEDERAL FOOD AID

1. Will the drought affect food prices?

The sweeping drought of 1988 will affect the food bills of all consumers, including the poor--but weather is not the only reason food prices increase or decrease (see below). Drought-induced food price changes also could affect the availability and cost of food provided through Federal domestic and international food assistance programs.

Dry weather and heat in the Nation's agricultural regions have cut significantly the production of spring wheat, soybeans, and feed grains, including corn. These crops go into many of the foods that U.S. shoppers buy at the grocery store, and they also feed the livestock that produce our meat, dairy products, and eggs. While tighter supplies mean higher farm commodity prices, they do not translate directly into higher retail food prices. Nevertheless, it appears likely that consumers will pay more for their food in the coming months, at least partly due to the weather.

2. How steeply will food prices rise?

Economists are uncertain about exactly how steep these increases will be, or when they will appear in food stores and eating establishments. Before the drought, the U.S. Department of Agriculture predicted that food prices overall would rise in 1988 by about 2 to 4 percent, roughly the annual rate of increase since 1982. The drought could add about one percentage point more to that increase, meaning that food prices could rise by about 3 to 5 percent overall this year. For 1989, the drought could add about two percentage points to food prices. USDA has not officially forecasted 1989 food price increases, but several private economists have predicted that, including the two percentage points attributable to the drought, food prices might rise a total of anywhere from 6 to 9 percent.

However, weather-induced production changes are only one of many complex and interrelated factors that contribute to food price increases--and decreases. Others include the cost of fuels and energy used in food production and marketing, food worker wage changes, shifts in demand for food, and government policies, to name a few.

3. How will low-income and other individual families be affected?

USDA has estimated that each percentage point increase in food prices adds nearly $50 to the annual food bill of the average family of four. That increase will have less of an impact on the average U.S. consumer, who spends only about 15 percent of disposable (after-tax) income on food, than on the low-income, who must spend much more as a proportion of total income. In 1982-83, for example, households earning less than $10,000 spent more than 36 percent of their pre-tax income on food, according to the Department of Labor.

4. Why aren't these increases more severe, given the extent of the drought?

USDA and other agricultural experts offer several reasons why drought-induced food price increases may not be sharper. Among them:

--The farm share of each retail food dollar is relatively small--25 cents in 1987 (although it varies for individual foods; see below). The rest goes to processing, packaging, distributing, and related marketing costs. Food marketing and processing labor costs alone, for example, accounted for 34 cents of each dollar shoppers spent for food in 1987. Exactly how much of any farm value increase is passed through the marketing chain to the consumer, and how much is absorbed by the middlemen, remains to be seen.

--The United States has grain stocks remaining from prior years. Even though overall grain production in 1988 is expected to be nearly a third lower than in 1987, supplies will be augmented by surpluses from prior years still stored by USDA and producers. Nevertheless, supplies of some types of crops (like oats and soybeans) could be much tighter than others (like corn), and even those now in relative abundance could become more scarce if the drought persists into 1989.

--The U.S. food supply is diverse. Although it is true that the drought has been widespread, not all areas, and not all types of food commodities, have been hit equally hard (see below for effects on individual items). When one type of food increases in price, consumers can sometimes substitute another, less expensive purchase (chicken for beef is one example). Of course, such substitutions are much more difficult for those with less income to spend on food. Moreover, food companies often seek new sources to augment supplies (as with orange juice from South America when Florida crops have suffered from a freeze or disease, for example). Production cuts in one region or country can encourage expansion by producers in other regions or in countries with different growing conditions or seasons.

5. How will individual food items be affected?

As noted earlier, prices for some foods will be affected by the drought more than others, and at different times. Following are examples.

Meat, poultry, and eggs. Consumers can be affected more directly by changes in the supply of meat and poultry products, partly because the producer's share of the retail prices of these items is relatively high--ranging from 46 percent for pork to 62 percent for eggs. Also, these items together represent well over a third of all U.S. food expenditures, making them an important component of a family's grocery bill.

Higher feed grain prices, along with poor pasture conditions, have generally been forcing producers to reduce the size of their herds and flocks. More beef and pork on the market was expected to bring lower retail prices in late 1988 (although by September they remained stronger than anticipated). However, that means fewer animals--and higher meat prices--in 1989.

Reductions in poultry flocks can occur more quickly, resulting in higher prices by late 1988. Since it takes much longer to rebuild cattle and hog herds and ready them for market than poultry flocks, chicken and turkey prices might begin to moderate sooner than meat prices if weather conditions improve next year. Egg prices were already on the rise in early 1988, with the industry working to reduce a surplus. With the drought driving up production costs, producers might reduce capacity further, meaning even higher egg prices by the end of this year.

Baked goods and cereals. At roughly 10 percent, the farm value of these products tends to be much smaller than for others; thus, developments on the marketing side tend to influence consumer prices much more than changes in farm costs. For example, USDA recently reported that higher prices for white bread this year will be due more to the higher cost of packaging materials than to the drought. Still, the weather will contribute to 1988 cost increases for many products, which contain not only grains but other farm-produced ingredients like shortening and sweeteners, all affected to some degree by the drought. Pasta will be more expensive this year, because it utilizes the durum wheat that was devastated this year in the Dakotas and eastern Montana. Oat-based products are likely to cost more in 1988 because of short oat supplies.

Fruits and vegetables. Store prices for canned vegetables, such as beans, peas and corn, were forecast to be higher this year, because they are grown mainly in the drought-plagued Great Lakes States. However, while some local supplies of fresh fruits and vegetables could be limited, diversity in weather and irrigation mean most producing areas will avoid serious damage, according to USDA.

Fats and oils and their products. Soybeans are a key ingredient for products like margarine and cooking oils, and retail price increases are expected. However, they could prove moderate if consumers substitute other products that use corn, palm, coconut, and cottonseed oils, or if processors

are able to replace soy with these oils in manufacturing. Worldwide supplies of other vegetable oils are expected to be abundant in 1988.

6. How will domestic food assistance programs be affected?

Twelve Federal programs provide food assistance worth over $20 billion a year to low-income persons. Unanticipated food price increases brought on by the drought or other developments affect each of these programs differently. More specifically:

Benefit Indexing: Food Stamp and Child Nutrition Programs. Assistance provided by the largest food aid programs, the Food Stamp and child nutrition programs (e.g., the School Lunch and School Breakfast programs), is indexed to account for changes in food prices measured by components of the Consumer Price Index (CPI). However, regular annual indexing lags significantly behind actual food price increases and, as a result, the aid provided by these programs will not directly reflect many 1988 price rises until well into 1989, nor will it reflect much of any 1989 increase until 1990. **Food stamp benefits** are adjusted each October (based on food prices in the previous June) and **child nutrition aid** is adjusted each July (based on food price changes through the 12 months ending the previous May).

Under normal indexing rules, **food stamp benefits** are scheduled for a 2.8 percent increase in October 1988. However, the Hunger Prevention Act (P.L. 100-435) includes provisions boosting this to a 3.4 percent increase, adding roughly 2 percentage points to the October 1989 inflation adjustment, and increasing the October 1990 adjustment by about 3 percentage points. These add-ons were intended to raise food stamp benefits to more adequately reflect food costs for low-income households, not to account for food-price increases. However, if price rises result from the drought, the effect of the add-ons will be eroded.

Similarly, the Hunger Prevention Act includes a special increase in Federal subsidies for the **school breakfast program** (3 cents per meal in addition to normal inflation indexing, effective July 1989). This add-on was intended to improve meal quality. But price rises caused by the drought or other factors will erode some of its value.

The Special Supplemental Food Program for Women, Infants and Children (WIC). Unlike the Food Stamp and child nutrition programs, WIC program benefit levels are not legislatively indexed for inflation. Under this program, low-income pregnant and postpartum women, infants, and children receive a monthly food package based on their nutritional needs. In some cases, the actual food is provided to the recipient, but, more commonly, recipients are given vouchers that authorize the purchase of specific types and quantities of food in retail stores. By law, the value and types of foods in a WIC package may not be reduced for budgetary reasons, or because food prices change. Thus, food price inflation does not affect the **value** of food benefits offered to recipients in the WIC program. Rather, it raises the cost of

benefits for each recipient and thereby affects the number of recipients that can be served by the appropriations provided.

Although there is no explicit legislative mandate for cost of living adjustments in the WIC program, projected food price inflation is counted in determining the program's "current services" level. Congress uses this level in determining annual appropriations, and generally has approved funding sufficient to at least maintain the WIC caseload of the preceding fiscal year. For FY89, the House and Senate passed separate appropriations bills (not resolved in conference as of mid-September) providing an increase of approximately 7 percent above the FY88 funding level, and nearly 3 percent more than the projected FY89 current services level (based on predrought inflation estimates). This additional funding was intended to expand the WIC caseload. Unanticipated food price inflation may erode some of this caseload increase, but it is not likely to result in a reduction in the nationwide WIC caseload. In fact, in those States that implement new "competitive bidding systems" to reduce WIC infant formula costs, food cost savings could permit program expansion, despite food price inflation.

Food Assistance for the Elderly. Food price inflation is likely to have a greater effect on meal service for the elderly than other meal service programs (e.g., the School Lunch program) because Federal aid is not adjusted for inflation. Federal support for elderly nutrition projects administered by State agencies on aging consists of (1) multipurpose nutrition grants under Title III of the Older Americans Act (OAA) that can be used for congregate and home-delivered meals, and (2) a USDA subsidy for each meal served (which may be taken in cash or commodities). Historically, the OAA component has provided about 75 percent of Federal support for elderly nutrition projects and the USDA component has provided roughly 25 percent.

The amount of the OAA grants depends on the level of appropriated funds, and Congress may provide increases that account for higher meal costs. The House and Senate have approved an FY89 appropriation (which had not cleared conference as of mid-September) for these grants that is 3.5 percent higher than for FY88. The appropriation for USDA cash subsidies (and the value of commodities taken in lieu of these subsidies) is based on a legislatively-set reimbursement for each meal served. This rate is not adjusted for inflation. Any increased appropriation for the USDA component can be used only to serve more meals, not to increase the Federal reimbursement for each meal served. In fact, if appropriations are not sufficient to fund all meals served at the legislatively specified rate of 56.76 cents per meal, the USDA is required to reduce this rate. Thus, if inflation results in meal costs that exceed the amount appropriated for nutrition services, State agencies on aging will have to cover these higher meal costs from other funding sources or reduce the number of meals served.

Commodity Donations. Beneficiaries of USDA commodity donations will be affected to the extent that the drought lessens the already diminishing amount of so-called "bonus" commodities available to them. These are commodities that, in the past, have been distributed to various programs to dispose of excess, uncommitted foods acquired by USDA under its price support and surplus removal programs. Such programs include the Temporary Emergency Food

Assistance Program (TEFAP), and meal service programs serving federally-subsidized meals to children, the elderly, and homeless, and other persons served by charitable institutions.

During FY82 through FY87, USDA donated over $5 billion worth of bonus items that had accumulated over a number of years. By FY88, these sizable donations, as well as reduced government acquisitions brought about by market conditions and changes in farm laws, reduced surpluses, and the amount and types of bonus commodities were cut back. For FY89, very few bonus commodities are expected to be available for domestic food programs, even without the drought. Schools and other meal service institutions will have to maintain their meal program operations with Federal cash subsidies and "entitlement" commodities purchased by USDA specifically for their programs.

While most cash and entitlement commodity support levels are indexed for inflation (see the discussion of benefit indexing), this will not make up for the loss of bonus commodities, or for food cost increases that may result from the drought. In addition, unanticipated food cost increases will reduce USDA commodity purchasing power and lessen the volume of entitlement commodities provided to meal service programs. Recipients will be affected to the extent that meal service institutions (e.g., schools) serve less expensive (and possibly less desirable) types of foods. The combined loss of commodities and any higher food costs possibly could result in higher meal prices where meal charges are permitted.

The Hunger Prevention Act recently approved by Congress provides Federal funding to purchase commodities for TEFAP, and for food banks and soup kitchens serving the homeless. Although the funding provided for FY89 ($120 million) will purchase less than one-third of the value of commodities formerly donated through TEFAP, it is expected to be sufficient to continue the program. For individual TEFAP participants, this means either that the frequency and/or amount of donations will decrease or that some may no longer be eligible for benefits. Moreover, higher costs of foods purchased by USDA directly from the market (rather than acquired under price support operations) are likely to lessen the volume of commodities purchased and alter the types of commodities offered. (USDA also has indicated that not all of these purchases will be dairy.)

7. How will the 1988 drought affect international food aid programs?

Because it affects both food supplies and prices, the 1988 drought is expected to have a significant impact on P.L. 480 and Section 416 food aid programs in fiscal years 1988 and 1989. The drought is not the only factor affecting U.S. food aid programs. Prices for farm commodities were increasing prior to the drought and had the potential to reduce the volume, and alter the composition, of commodities shipped under food aid programs. Changes in commodity programs and somewhat tighter supply-demand conditions had already limited the availability of certain commodities, such as dairy products and rice, to the food aid program.

Food aid programs will be affected differently according to the extent to which they depend on the existence and availability of USDA Commodity Credit Corporation (CCC) stocks. For example, Title I of P.L. 480 is independent of CCC-held stocks while Section 416 donations are completely dependent on CCC-held inventories. Title II requires that a minimum tonnage of commodities be made available to receiving countries as donations. Because of its effects on food supplies and prices, the drought could influence both the volume and commodity composition of food aid shipments.

Title I of P.L. 480. Because of farm policy and demand factors unrelated to the drought, total food aid shipments under Title I in FY88 are already more than 580 thousand metric tons lower than originally planned. (This estimate is the difference between the Title I allocations in the Agency for International Development's FY88 congressional presentation and the July Title I quarterly allocation tables published by USDA.) The composition of food aid had also been affected by predrought price increases. Wheat and wheat flour shipments under Title I are 460 thousand metric tons less than planned at the beginning of the fiscal year, rice shipments are down by 60 thousand metric tons from planned levels, while shipments of feed grains, vegetable oils, oilseeds, and oil meal are up substantially.

The drought could further reduce the volume of Title I shipments. With higher prices, a given budgeted amount for Title I will purchase a lower volume of commodities. Higher prices can further alter the composition of food aid, if lower priced foods are substituted for commodities whose prices are rising. USDA's October 1988 quarterly allocation for Title I will show the effects of drought-induced crop shortfalls and price increases on both volume and composition of Title I shipments.

Title II of P.L. 480. Commodity price increases will potentially lower Title I volume more than Title II, because Title II requires that a minimum tonnage--1.9 million metric tons during 1987-1990--be made available to receiving countries. However, if more funds were necessary to meet the Title II minimum tonnage, and Title II were to consume a larger share of the food aid budget, the total volume of food aid could be reduced.

Factors unrelated to the drought--reduced CCC inventories of dairy products and unfavorable price relationships for oats--have created some problems for the Title II donations program. Due to the unavailability of dairy products in CCC inventories, nonfat dry milk (NFDM), corn-soya-milk (CSM), and wheat-soya-milk (WSM) have been replaced by the products corn-soya-blend and wheat-soya-blend. Rolled oats and S.F. rolled oats have been determined to be unavailable for FY89 procurement.

Section 416. Higher prices resulting from the drought and stronger demand for U.S. agricultural commodities combined with the continued use of generic certificates to redeem CCC stocks will reduce the volume of commodities available for Section 416 donation programs. As in the case of Title II, because the certificate programs have reduced the level of dairy stocks, NFDM is already unavailable for Section 416 programming in FY88. Substantially reduced CCC stocks of rice, due at least partly to price support policies put in place by the Food Security Act of 1985, have made that commodity unavailable

for Section 416 programs in 1988 and 1989. The drought will further contribute to reducing the build-up of stocks of other grains and thus reduce or restrict their availability to the Section 416 program.

8. Is anyone monitoring food prices?

The Disaster Assistance Act of 1988 (P.L. 100-387), signed into law on August 11, requires the Secretary of Agriculture to survey food and commodity prices as of December 31, 1988, and to report to Congress by the following March 1. This report must analyze the adequacy of Federal nutrition and hunger programs as affected by the drought or any related conditions. The new law also encourages USDA to cooperate with other agencies in monitoring food prices to assure that any increases "are commensurate with commodity price increases resulting from the drought."

USDA already publishes annual data on food consumption, prices, and spending and routinely tracks food sector developments in other publications (see below). Other groups also have initiated food price monitoring or shorter term studies. These include the General Accounting Office; agriculture departments in Texas, Minnesota, North Carolina, Massachusetts, and several other States; the Iowa Extension Service; and a number of consumer and producer organizations.

9. Is there more information available?

The following sources can provide more information:

The U.S. Department of Agriculture's Economic Research Service publishes a number of materials covering food price and related trends. They include **Food Cost Review** and a summary entitled **Food Costs...From Farm to Retail** (both annual); **National Food Review** (monthly), and **Agricultural Outlook** (monthly). For subscription information contact ERS at 1301 New York Avenue, N.W., Washington, D.C. 20005. Telephone: (202) 786-1494.

The U.S. Department of Labor's Bureau of Labor Statistics collects monthly data on retail food prices. These are published in the monthly **CPI Detailed Report**. Contact BLS, U.S. Department of Labor, Washington, D.C. 20212. Telephone: (202) 272-5173.

A **CRS** report entitled **The Cost of Our Food** (November 1985, No. 85-225 ENR) discusses food prices, what determines them, and how they are measured and monitored by government agencies. Members and their staffs can obtain a copy by calling CRS; telephone (202) 287-7132.

CRS also publishes and periodically updates several Issue Briefs covering the food assistance programs, including: **Domestic Food Assistance: Overview of Programs, Issues, and Legislation** (IB88059), and **Foreign Food Aid Programs: Effectiveness Issues** (IB88057). Contact CRS for copies; telephone (202) 287-7132.

Questions about domestic food programs also can be directed to USDA's **Food and Nutrition Service**, Alexandria, VA 22302; telephone (703) 756-3746.

The **U.S. Department of Agriculture's Foreign Agricultural Service** (FAS) publishes quarterly allocations of food aid provided under Title I of P.L. 480. The next quarterly allocation table will be published in October. For information contact Mary Chambliss of FAS at (202) 447-3573.

The **Agency for International Development** maintains information on Title II donations and donations under Section 416. For information contact Jeanne Markunas at (703) 235-9172.

Senator HARKIN. I think we should remain vigilant as we go through these next few months, which are going to be critical concerning the impact of the drought on the whole food price chain. So we thank you all very much for coming.

[Whereupon, at 11:23 a.m., the committee adjourned, subject to the call of the Chair.]

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